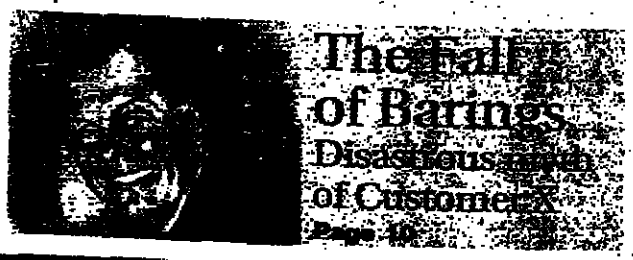
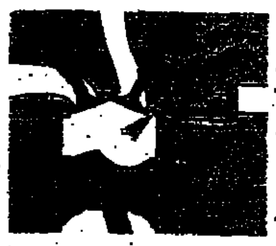
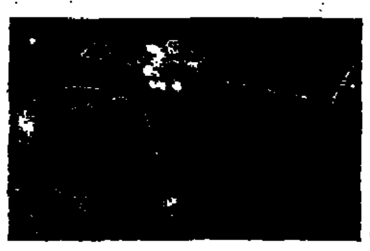
FINANCIAL TIMES



Art of the memo
"Ace" Greenberg's humble oeuvre
Lucy Kellaway, Page 12



Direct injection
New MMC engine in quantum leap
Technology, Page 21



Today's survey
International Telecommunications
Survey, Separate section

World Business Newspaper http://www.FT.com THURSDAY SEPTEMBER 19 1996

EU may risk breach of beef export rules

The European Union risks breaching internationally agreed beef export limits because of falling European demand sparked six months ago by fears over mad cow disease. It could bring increased pressure for radical reform of the Common Agricultural Policy aimed at curbing beef production. The warning is spelt out by the Irish presidency in a paper prepared for EU farm ministers who are to meet early next week at Killarney, Ireland.

Fears over insider trading: The US Securities and Exchange Commission fears that power to enforce rules governing insider trading could be affected because of a ruling which may narrow the definition of insider trading in US courts. Page 5

US in talks with Kurd leader: Massoud Barzani, the Kurdish leader allied to Iraq, is in Turkey for talks with Robert Pelletreau, the US assistant secretary of state for near eastern affairs, and Turkish leaders. Page 6

VW in $1bn Beetle plans: Volkswagen aims to invest $1bn in a new factory at Puebla, near Mexico City, for the "New Beetle", a successor to the famous 1930s model. The car will be launched in 1997. Page 6

Israel criticised over homes approval: Israeli defence minister Yitzhak Mordechai was criticised by Palestinians and peace activists for approving a plan to build nearly 2,000 homes in Matityahu, a Jewish settlement in the West Bank.

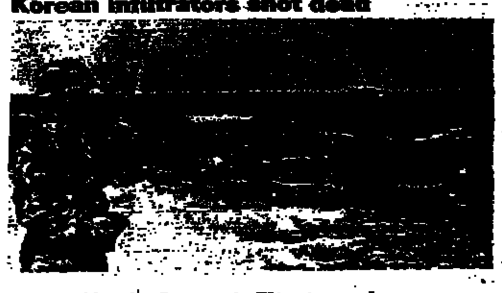
Laidlaw sale to raise $1.7bn: Ontario-based waste and transport services group Laidlaw will get almost US$1.7bn for its solid waste business from Allied Waste Industries of Arizona. Page 18

California acts over child molesters: California became the first US state to force serial child molesters to have their sex drive lowered with drugs. Offenders will be given injections after leaving prison on parole.

Manila warned over mining: Leading mining companies have warned the Philippine government that its commitment to develop the country's vast gold reserves – the seventh largest in the world – would be at risk if it bowed to pressure from domestic environmental groups. Page 14

Tax bill test for Menem: Argentine president Carlos Menem's ability to rally his Peronist party was tested as senior politicians tried to push through a tough austerity bill aimed at raising $3bn more in taxes each year. Page 5

Korean infiltrators shot dead



Eleven North Korean infiltrators who were found dead had been shot, possibly by one of their number who then used the gun on himself, South Korea's defence ministry said. A twelfth was captured alive and another eight or nine were still at large. They are all thought to have been put ashore by a submarine (above). Page 4

Tambrands to close plants: US Tampax maker Tambrands revealed plans to close factories in Ireland and France but to expand its plant in England in a streamlining operation. The restructuring will bring pre-tax savings of $20m a year from 1998. Page 18

Papon to stand trial: A French appeals court ordered former cabinet minister Maurice Papon, 86, to stand trial for crimes against humanity. He is accused of sending 1,690 Jews, including 223 children, from wartime France to their deaths in Nazi extermination camps.

Fund manager ousted: Peter Young, the Morgan Grenfell fund manager suspended after being accused of "gross misconduct", has been dismissed, the company said. Page 15

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STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	5,873.29	(-15.54)
NASDAQ Composite	1,204.42	(+1.11)
Europe and Far East		
CAC40	2,072.73	(-8.13)
DAX	2,525.7	(-2.38)
FT-SE 100	3,955.7	(-16.6)
Nikkei	21,156.75	(-153.84)

US LUNCHTIME RATES	
Federal Funds	$4\frac{7}{8}$%
3-mth Treas Bills: Yld	5.28%
Long Bond	$96\frac{2}{32}$
Yield	7.006%

OTHER RATES		
UK: 3-mo Interbank	$5\frac{23}{32}$%	($5\frac{3}{4}$%)
UK: 10 yr Gilt	$97\frac{1}{32}$	($98\frac{1}{32}$)
France: 10 yr OAT	102.0	(102.14)
Germany: 10 yr Bund	100.54	(100.55)
Japan: 10 yr JGB	101.2542	(101.254)

NORTH SEA OIL (Argus)		
Brent Dated	$22.45	(21.9)

GOLD		
New York: Comex		
(Dec)	$386.3	(386.1)
London:		
close	$383.3	(383.45)

DOLLAR		
New York: lunchtime		
£	1.56095	
DM	1.50885	
FFr	5.1405	
SFr	1.24155	
Y	109.155	
London:		
£	1.5606	(1.5551)
DM	1.5084	(1.5143)
FFr	5.1389	(5.1451)
SFr	1.2407	(1.2437)
Y	109.07	(110.2)
Tokyo close:	Y 110.30	

STERLING		
DM	2.3537	(2.3548)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kč70	India	Rs75	Nigeria	Naira120	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y600	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils750	Portugal (mainland)	Es265	Turkey	L120,000
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00

Deficit increases by 43% as imports of cars, oil and electronics soar

US trade gap jumps to $11.7bn

By Nancy Dunne in Washington

The US trade deficit in goods and services deteriorated markedly in July, resulting in the worst monthly showing since the government began issuing combined merchandise and services trade figures in 1992.

The poor results are one of the weaknesses in the glowing economic picture President Bill Clinton paints on the campaign trail for the November elections.

The deficit soared by 43 per cent during the month to $11.7bn as imports of cars, electronics and oil surged and aircraft exports fell, the Commerce department said.

Mr Robert Lighthizer, an adviser to Senator Robert Dole, the Republican presidential candidate, said the trade sector is "a glaring deficiency in Clinton's record that goes to the heart of middle-class anxiety in this country".

Mr Mickey Kantor, Commerce secretary and a leading Clinton campaign adviser, put the best interpretation on the figures, hailing the "prospects for long-term improvement" as exports to Japan rise, the trade deficit with Mexico stabilises, and the rise in the deficit with China slows.

A sharp fall in aircraft exports, which are notoriously volatile, contributed significantly to the deterioration. Foreign sales fell by $686m in July to $856m. Commerce also blamed "the underlying strength of the US economy", which spurs demand for consumer goods imports.

But many economists say the overall trend is deteriorating, and will drag on the economy in the third quarter. The figures also raise doubts about the effectiveness of the Clinton administration's aggressive export strategy to restore lost manufacturing jobs.

The trade picture was disappointing in almost every market. Trade balances eroded with every country except Canada and Mexico. The balance with Western Europe widened to a record $4.2bn from $0.8bn in June.

The deficit with Japan, which has been falling, widened by $1.1bn to $4.3bn. However, Japanese trade figures for August, also published yesterday, showed the fall resuming.

Imports from China hit a record $4.8bn, a 17 per cent rise led by an increase of $252m in toys and games, $159m in clothing and $106m in footwear.

Oil imports jumped 10 per cent to $4.7bn, the highest monthly total since October 1990.

The goods deficit increased by $2.9bn in June to $17.5bn, while the services surplus decreased by $0.6bn from June to $4.8bn. However, the Coalition of Service Industries said the sector is on track to break its record yearly level of $68.3bn in 1995.

Exports of travel and transportation fell, while exports of royalties and licencing fees and "other private services" – including financial services, education, telecommunications, professional services and insurance – rose.

Mr Larry Chimerine, of the Economic Strategy Institute, a Washington think tank, said the US deficit, particularly with Asia, is now structural and unaffected by exchange rates, macroeconomic conditions or growth in other countries.

Japanese surplus falls, Page 4
Currencies, Page 23
World stocks, Page 34

Ex-chairman of Olivetti regains control

By Andrew Hill in Milan and Paul Taylor and William Lewis in London

Mr Carlo De Benedetti yesterday regained full control over the board of Olivetti after Mr Francesco Caio resigned as chief executive of the Italian information technology group.

The board voted unanimously to nominate Mr Roberto Colaninno, chief executive of Sogefi, the Italian automotive components company, in Mr Caio's place. Cir, Mr De Benedetti's quoted holding company, owns 57 per cent of Sogefi and 15 per cent of Olivetti.

Olivetti's share price has fallen more than 30 per cent in the two weeks since Mr Caio took tighter control of the group, following the resignation of Mr De Benedetti, the group's largest shareholder, as chairman. The shares recovered slightly yesterday, but doubts over the financial position of the group, and a judicial investigation into the half-year figures, still overshadowed Mr Caio's attempt to open a new phase in the group's development.

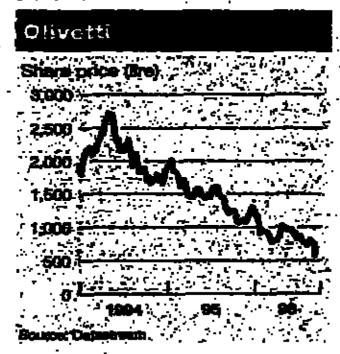
Supporters of Mr De Benedetti said yesterday that Mediobanca, the powerful Milan merchant bank, which owns a stake in Olivetti, had backed Mr De Benedetti in his effort to reshuffle the management – the third change in as many months.

But several of Olivetti's institutional shareholders warned that they were likely to call for an extraordinary general meeting if any reshuffle of the board failed to meet their expectations.

In particular, they said they were keen to ensure that Mr De Benedetti was not reappointed as chairman and wanted the company immediately to sell or close down its personal computer subsidiary – a source of persistent losses and restructuring costs. Investors holding approximately 25 per cent of Olivetti have formed a group which has met twice to discuss possible action.

Speaking ahead of last night's board meeting Mr Talal Shakerchi, head of European equities at Old Mutual, which holds about 2 per cent of Olivetti and is a member of the shareholder group, said that "if we are disappointed then there is a very high likelihood"

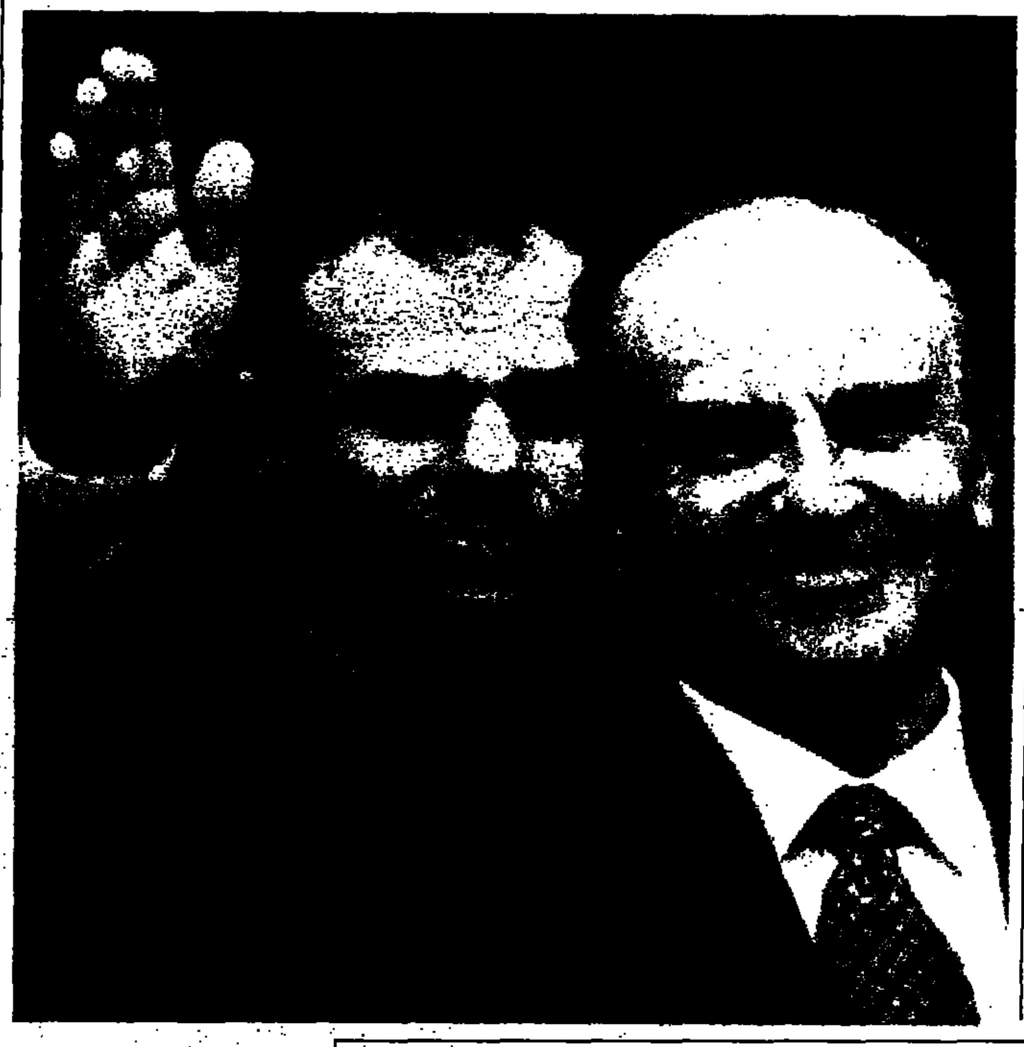
Olivetti



Source: Datastream

Continued on Page 14
Lex, Page 14; Olivetti's promise, Page 16; World stocks, Page 34

Izetbegovic wins Bosnian election



Alija Izetbegovic waves yesterday to supporters of the Moslem Party of Democratic Action after being elected Bosnia's head of state. Mr Izetbegovic, who has been president of Bosnia since the first free elections in 1990, narrowly won the race for the chairmanship of Bosnia's tripartite presidency – one Moslem, one Serb and one Croat. Report, Page 14

Picture: Reuter

SBC takes SFr3.3bn charge against loan losses

By William Hall in Zurich

Swiss Bank Corporation, Switzerland's third biggest bank, has taken a SFr3.3bn ($2.7bn) charge and radically changed the way it provides against future loan losses.

As a result, SBC, which implemented a top management reshuffle both at group level and at its SBC Warburg investment banking subsidiary a year ago, will report a one-time "technical loss" of SFr1.9bn for 1996.

SBC had expected to achieve a net income of SFr1.4bn this year. This will now be offset by a SFr2.4bn special reserve, which is being established as part of the new statistically based provisioning policy, and a SFr910m write-off of part of the bank's property portfolio.

SBC's action comes less than three months after CS Holding, the financial group built around Credit Suisse, said it would restructure its domestic operations.

The group plans to close around a quarter of its domestic outlets, cut 1,700 jobs from its 13,000-strong domestic workforce and force its high-risk corporate borrowers to pay higher interest rates. It believes that these measures will raise earnings by around SFr400m in the medium term and will enable the group to nearly double its return on equity to 15 per cent and free up between SFr800m to SFr1bn of equity capital.

SBC's shares rose by more than 2 per cent yesterday to close at SFr241.5, helped by the news that instead of paying a dividend of SFr8 for 1996 the directors would propose reducing share capital by making a tax-free capital repayment of SFr10 a share.

Mr Hans Kaufmann, head of strategy at Bank Julius Baer, was surprised by the extent of the property provision.

The Swiss economy has been in recession for most of the past six years and the group says that there has been a

Continued on Page 14
SBC tackles problems, Page 16
WSM, Page 34

France tailors budget to meet Maastricht targets

By David Buchan in Paris

The French government announced a draft 1997 budget yesterday which would cut the central state deficit by only FFr4bn ($780m), because spending cuts will be almost totally absorbed by tax reductions.

But the government said that next year's overall public deficit would be 3 per cent of national output, exactly the figure needed for France to gain its passport to European monetary union.

The government is largely counting on a one-off payment of FFr37.5bn from France Télécom, in return for the state assuming the utility's pension liabilities, to achieve the Maastricht deficit target of 3 per cent.

In the 1997 budget, Mr Alain Juppé, prime minister, sought to placate his own centre-right majority with tax cuts before the 1998 parliamentary elections. He also sought to reassure the financial markets and France's European Union partners that it would meet next year's qualifying test to join the currency union in 1999.

After the budget, the franc fell back slightly, losing one centime to close in Paris at FFr3.407 against the D-Mark.

The new budget will bring the deficit down from an estimated FFr288bn this year to FFr283.7bn next year, or 3.45 per cent of gross domestic product. By pruning FFr60bn from this year's spending projections, the government intends to hold the line on expenditure.

Taking a predicted 1.5 per cent rate of inflation next year, this will entail a cut in real terms. But the government has also pledged to slice FFr25bn off general income tax in 1997, as the start of a five year tax-cutting programme, coupled with a last minute decision to pay early FFr15bn in savings premiums to poorer families outside the income tax net.

The government is confident that the France Télécom payment, and certain other non-budgetary funds, can be included in deficit calculations under the Maastricht definition. It has gained preliminary approval from the European Commission, which is responsible for making final proposals on which countries qualify for Emu.

But the fact that the government is resorting to such items to reach the 3 per cent target, 16 months before the end of the 1997 budget year, may leave it little in reserve.

France held its breath, Page 3
Editorial Comment, Page 13
Lex, Page 14

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

Spanish premier sees freeze on pay

By David White in Madrid

Mr José María Aznar, Spanish prime minister, said yesterday a freeze on public sector wages next year was "indispensable" for meeting budget targets and confirmed plans for a levy on insurance policies to help plug the government's revenue gap.

In an effort to prepare public opinion for a tough 1997 budget, Mr Aznar proposed an inter-party consensus on the future of the country's health system, similar to an outline pact reached early last year for reforming state pensions.

Health expenditure is at the centre of discrepancies between Mr Aznar's centre-right Popular Party government and Catalan nationalists whose support is needed to carry the budget bill in parliament. Mr Aznar said health spending was set to increase 5 per cent next year but warned that the budget could not meet all demands. The government was in talks with the pharmaceutical industry to try to bring down costs, he said.

He said the budget, due to be presented to parliament by the end of the month, would involve spending cuts of Pta800bn ($6.3bn). The government is also counting on Pta400bn in additional revenues to trim the overall public sector deficit to 3 per cent of gross domestic product, the level required to qualify for the European single currency.

Mr Aznar confidently reaffirmed his election pledge to be part of the first group of single-currency countries in 1999.

"Spain will be there," he said. But he promised that he would not increase income taxes, corporate taxes or value-added tax rates to meet the target and that pensions would be maintained in line with inflation.

The plan for a levy of around 4 per cent on non-life insurance policies is the latest in a series of schemes floated in recent weeks as possible extra revenue sources. The government has already discarded the idea of charging motorists for using state-maintained trunk roads, as well as a proposed surcharge on water rates.

It has also decided to exclude from the budget bill a controversial plan for a flat-rate prescription charge applied to pensioners who obtain free medicines, as well as other Spaniards, on top of the 40 per cent they contribute to the price of drugs under the state scheme.

Mr Aznar said he would do "everything possible" to fulfil his promise to bring income tax down from the top rate of 56 per cent to 40 per cent in the next four years, but made clear this would not happen immediately.

To avoid higher taxes new ways would have to be found to finance infrastructure projects, he said. On Tuesday, the head of his budget office, Mr José Barea, said infrastructure spending would fall by Pta100bn-Pta150bn next year.

Mr Aznar's aplomb was somewhat unsettled when he was challenged about accepting the loan of an industrialist's house for his seaside holiday. He asked whether he was expected "to put up a tent on the beach".

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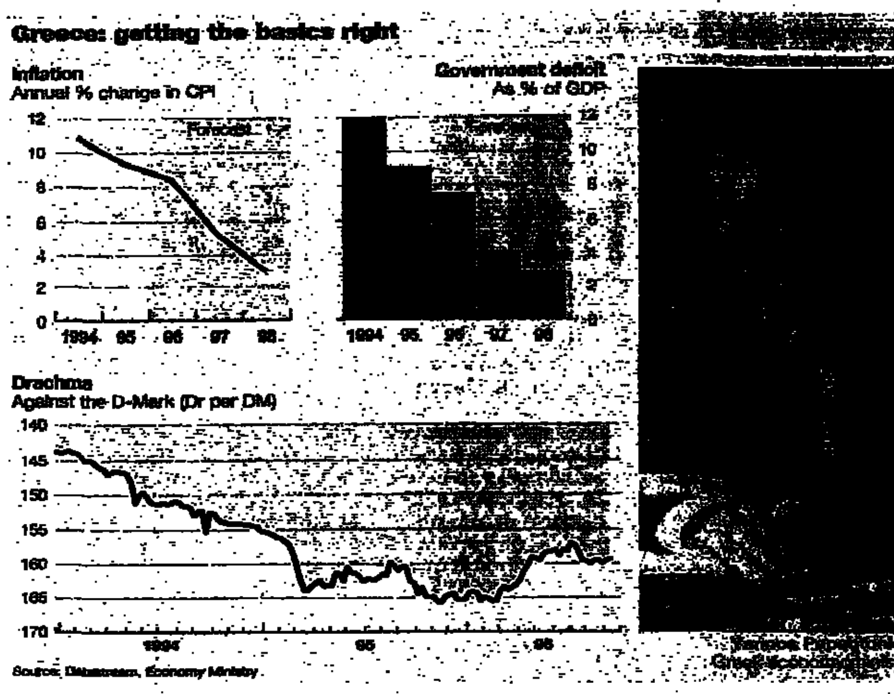
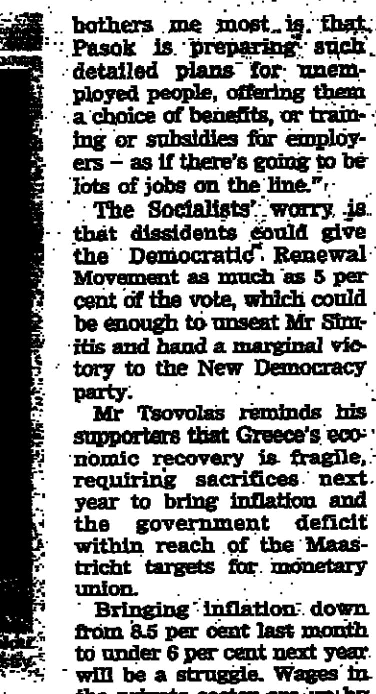
Pasok is doing well, but victory is not assured, says **Kerin Hope**

Socialists switch to market economics for Greek poll win





Mr Yannos Papantoniou, Greece's economy minister, tumbles out of his white BMW breathless and late for an election speech in Petralona, a staunchly left-wing district of Athens.

His message to the crowd outside Stavroula's, a white-washed taverna in traditional style, is that the Panhellenic Socialist Movement's tight fiscal policies have restored confidence in the economy and boosted growth through investment.

But it is still not clear whether these will be enough to secure victory for Pasok in Sunday's general election.

"Greece is a successful country," he declares, thumping a plastic tablecloth. "We have a strong economy, a stable currency that stands up to the Deutschmark, and for the first time in 22 years, single-digit inflation."

Socialist candidates are stuffing their speeches with economic statistics, following the example of Mr Costas Simitis, the prime minister. Instead of making comforting but vague pledges of future prosperity, he emphasises Greece's improving macroeconomic indicators in relentless detail both on television and in speeches in provincial towns.

Mr Papantoniou, a Cambridge-educated economist whose avowed ambition is to push Greece into joining the proposed single currency by the year 2001, has no qualms about launching into a discussion of interest rate policy with his audience.

Residents of Petralona – small businessmen, public sector employees and pensioners, including returned "guest-workers" from Germany – take a keen interest in borrowing and mortgage rates as well as the drachma's stability. Capital market liberalisation, launched in the early 1990s by a conservative government and encouraged by Pasok, has turned Athenians into discriminating consumers of financial products.

Mr Stathis Sidiropoulos, a furniture-maker, says he now finances his business in foreign currency "because interest rates are much lower and the drachma has appreciated quite a bit against the Ecu this year".

Pasok's willingness to write marxism out of its charter, launch fiscal reforms and embrace privatisation, albeit cautiously, has attracted support from Greek businessmen for whom Mr Simitis appears to guarantee stability.

The businessmen's shift to the socialist camp also reflects mistrust of the conservative New Democracy (ND) party's economic policies. Mr Miltiades Evert, the ND leader, has proposed measures that could derail the reform effort, including substantive tax breaks for farmers and the self-employed.

Mr Papantoniou forecasts growth in Greece's gross domestic product of 2.6 per cent this year, rising above 3 per cent next year. It is based on a sharp rise in investment deriving from inflows from EU structural funds for modernising roads and airports and from Greek companies' ambitions to boost exports to eastern Europe and the former Soviet Union.

But radical Socialists are upset by what they see as Pasok's swift transformation under Mr Simitis into a pro-business party, speeded up since the death in June of its founder, Mr Andreas Papandreou. Dissidents have flocked to the Democratic Renewal Movement, a splinter group founded by Mr Dimitris Tsovolas, a former Socialist finance minister, who says the state, which still accounts for about 45 per cent of Greece's GDP, should retain its grip on the economy.

Mr Alecos Velentzas, an undecided Socialist, listened carefully as Mr Papantoniou outlined Pasok's jobs strategy, dismissing concern about the rising unemployment rate – now above 10 per cent of the workforce for the first time – on the grounds that EU-funded projects would create large numbers of new jobs.

Mr Velentzas said: "What bothers me most is that Pasok is preparing such detailed plans for unemployed people, offering them a choice of benefits, or training or subsidies for employers – as if there's going to be lots of jobs on the line."

The Socialists' worry is that dissidents could give the Democratic Renewal Movement as much as 5 per cent of the vote, which could be enough to unseat Mr Simitis and hand a marginal victory to the New Democracy party.

Mr Tsovolas reminds his supporters that Greece's economic recovery is fragile, requiring sacrifices next year to bring inflation and the government deficit within reach of the Maastricht targets for monetary union.

Bringing inflation down from 8.5 per cent last month to under 6 per cent next year will be a struggle. Wages in the private sector are up by about 11 per cent this year, while public sector workers are benefiting from productivity bonuses which ensure that wage rises this year will exceed inflation.

Another battle looms over reducing the deficit next year from 7.6 per cent to 4.2 per cent of GDP. While Mr Papantoniou stresses that no new taxes will be introduced and Mr Simitis sounds stern about reducing tax evasion, not much is said on the campaign trail about cutting expenditure.

The economy ministry's plans for trimming over Dr400bn ($1.6bn) off government spending next year include a 12-month freeze on public sector hiring, budget caps on smaller public entities that escaped earlier attempts to curb spending and closures of out-dated public services.

Euro MPs in attack on lack of EU vision

By Neil Buckley in Strasbourg

European parliament members yesterday delivered a sharp attack on what they saw as lack of vision and will by the European Union's political leaders, amid a bleak assessment of the "state of the Union".

In parliament's second annual debate on the state of the EU, speakers warned of "disillusionment" in the Union. Leaders of all main parties accused the EU of being out of touch with its citizens, of losing credibility, and of failing to address the important questions of the new millennium.

MEPs listed criticisms, including lack of progress in the six-month-old inter-governmental conference on reforming the EU, failure to tackle unemployment and crime, and damage to the Union's image from mishandling of the beef crisis.

"The credibility of the Union is crumbling away," said Mr Gijs de Vries, leader of the parliament's liberal democratic group. "The Union is degenerating into an organisation of goals without means, of promises without consequences, words without actions."

Ms Pauline Green, leader of the dominant Socialist bloc, talked of a "general mood of disillusion and depression. The Union is dismally uninspiring. Indeed, to the overwhelming number of people it is completely irrelevant." Ms Cristiana Muscardini, leader of non-aligned MEPs, said the state of the EU could be described as "ill".

MEPs regularly grumble about the slow progress of EU initiatives and their own lack of influence. Yet the strength of language from all sides appeared to surprise Mr Jacques Santer, European Commission president, and Mr John Bruton, prime minister of Ireland, which holds the rotating EU presidency, who opened yesterday's debate.

Member states' ministers were the main object of parliament's reproaches. But criticism was implied of Mr Santer's failure to win EU states' backing for projects such as his "confidence pact" for employment, and creation of trans-European transport and communications networks.

Mr Klaus Hänsch, parliament's president, chided EU states for failing to back these projects with funding and action. To withhold Ecu1bn ($1.27bn) financing for trans-European networks when the EU spent the same amount annually subsidising the tobacco industry denoted "poverty not just of finances, but of spirit".

Mr Bruton and Mr Santer sought after the debate to highlight the European Union's achievements, arguing its existence had prevented war in western Europe for 50 years. "The Union will never achieve the atavistic loyalty nation states created and maintained through war," Mr Bruton said. But he admitted parliament's criticism of states was justified.

Mr Theo Waigel, Germany's finance minister, yesterday insisted there could be no dilution of the criteria for European economic and monetary union, writes Peter Norman in Bonn.

Speaking two days before EU economic and finance ministers are due to discuss his idea of a stability tax at an informal meeting in Dublin, Mr Waigel warned that financial markets would punish any attempt to surround the criteria with uncertainty.

"We can accept no tricks," he told the Ludwig Erhard Foundation in Bonn. He rejected the suggestion that Germany adjust its deficit to take account of its large net transfers to other EU states and so bring it below the 3.5-4 per cent of gross domestic product widely expected for this year and closer to the 3 per cent Maastricht limit. "Three per cent is 3 per cent, not 3.2 per cent, 3.4 per cent, or 3.5 per cent," he said.

Mr Waigel said the stability pact must incorporate a system of economic surveyance which would act as an early warning system and trigger sanctions against states with excessive deficits above the 3 per cent level.

This procedure should take effect in less than a year. Delinquent Emu states would lodge interest-free deposits with the EU which could become fines if they failed to reform.

Santer ready to water down jobs initiative

By Lionel Barber and Caroline Southey in Brussels

Mr Jacques Santer, president of the European Commission, is about to abandon the symbolic centrepiece of his job-creating initiative built around the multi-billion trans-European transport networks.

In a speech to the European parliament in Strasbourg yesterday, Mr Santer made no reference to the TENS networks or his campaign to raise extra funds from member states to launch the projects. Earlier this year he had elevated the networks into a top priority for boosting competitiveness and employment.

The TENS are hugely expensive projects such as a high-speed train link between Erfurt and Nuremberg; a road/rail tunnel through the Brenner pass; and a high-speed TGV east destined for Kiev and Moscow.

Mr Santer's imminent retreat on TENS marks a watering-down of his jobs initiative launched last spring under the banner of a Confidence Pact on Employment between employers, trade unions and governments. Though there is no question of abandoning the networks themselves, the issue of financing is likely to be put on ice in the face of opposition from Britain, Germany and latterly France which is slashing public spending in an effort to meet the Maastricht targets for monetary union.

"There is clearly no point in pursuing the issue if member states are not prepared to provide the money. Nobody says TENS are a bad idea. But clearly finance ministries do not want to spend any more money," an EU official said.

First alluded to in the 1991 Maastricht treaty, the TENS projects have been bogged down in technical disputes such as inter-operable signalling standards as well as the issue of whether public funds are needed to bridge a financing gap.

Mr Santer's original proposal was to shift Ecu1.7bn ($2.15bn) of underspending from the EU farm budget to TENS and EU research and development - encouraged by the fact that EU leaders have constantly pledged to back the networks but later allowed finance ministers to back away.

Mr Santer came close to winning support for reordering budget priorities at last June's EU summit in Florence, but ultimately failed because of Anglo-German opposition and unexpected cost of compensating beef farmers.

Mr Santer will continue to fight for his original action plan on employment, which puts more emphasis on improving the single market, curbing state aid, and boosting education and training, and promoting small businesses.

Cut in German sick pay threatened

Engineering employers' move could trigger legal showdown with unions

By Wolfgang Münchau in Frankfurt

German engineering employers yesterday threatened unilateral cuts in sick pay entitlements in a move likely to trigger a legal showdown with unions.

The threat by engineering employers follows last week's parliamentary approval of the German government's savings programme. The new law includes a controversial clause to reduce workers' statutory claims to sick pay from 100 per cent of wages to 80 per cent from October.

The change in the law only affects workers with no separate sick pay arrangements in their work contracts. Mr Werner Stumpfe, president of Gesamtmetall, the engineering employers' group, said the law should also apply in his own industry, even though most contracts guaranteed full sick pay entitlements.

"Of course we don't want to break the law. I think we, the union and the employers' federation, have enough occasion for dispute. We should leave it to the courts, whether we are going to introduce cuts in sick pay from October 1," Mr Stumpfe said yesterday.

Mr Klaus Zwickel, president of IG Metall, has signalled readiness to strike in defence of present sick pay rules. "IG Metall will not patiently wait and see the majority of people becoming poorer while the number of millionaires is on the increase," he declared.

Ms Ursula Engelen-Kefer, vice-president of the Germany Trade Union Federation, threatened court action if employers break existing contracts. The employers have argued contractual arrangements were based on existing law, so that a change in the law would affect the contract as well.

Germany's sick pay rules are among the most generous in the world and have recently become a focal point in the welfare reform debate.

Union members regard the present arrangements, which they secured in a series of industrial disputes in the late 1950s, as a symbol of Germany's welfare state. Employers say the arrangements are costly and drive up absentee rates.

The sick pay rules are among a host of other contractual arrangements to come up for renegotiation at the forthcoming wage round in the engineering sector, due to start in December.

Gesamtmetall has previously indicated readiness to press for a new settlement at the wage round, a move firmly resisted by IG Metall.

Mr Stumpfe's call for lower sick pay marks one of the first warning shots by employers ahead of the wage round. The last wage round in 1995 brought a rise in wage costs of about 11 per cent for the two-year period, at a time of almost stable prices.

EUROPEAN NEWS DIGEST

Lukashenko 'tapped phones'

The chairman of the Belarusan constitutional court yesterday accused President Alexander Lukashenko of putting wire taps on telephones of the country's senior leaders, including its top judges. Mr Valery Tikhinia, Belarus's senior judge, said he had been told his home and office telephones were bugged by a sympathetic official in the president's personal security service.

The charge is the most recent episode in what many observers have described as Belarus's accelerating slide towards dictatorship. This summer, for the first time since the collapse of the Soviet Union, two leading Belarusan opposition politicians were granted asylum by the US. Many fear the situation could become worse later this year, if Mr Lukashenko goes through with his threats to disband parliament. *Chrystia Freeland, Moscow*

UK hails Swiss over Nazi gold

Britain welcomed Swiss government efforts to clear up the fate of Nazi gold that may linger in Swiss bank vaults, British foreign secretary Malcolm Rifkind said yesterday.

Mr Rifkind also said relations between London and Berne were good, despite allegations raised by a British government report that the Swiss returned only about one-tenth of Nazi gold demanded by the Allies after the second world war.

Mr Rifkind spoke after meeting his Swiss counterpart, Mr Flavio Cotti, for talks that included Berne's plans for a commission of experts to study the extent and fate of both Nazi and Jewish riches deposited in neutral Switzerland during the conflict. *Reuter, Berne*

Austria tax compromise

The Austrian coalition government yesterday announced changes in its controversial law imposing a 30 per cent social security tax on contract or freelance work. After several weeks of negotiations, the Social Democrats and the conservative People's party agreed to raise the exemption for the levy on contract work from Sch3,600 ($338) to Sch7,000 a month.

The new tax was implemented in July and was designed to add more than Sch1bn to the depleted coffers of the national health and pension insurance system. But critics warned that the measure would destroy thousands of jobs and induce companies to shift their operations abroad.

Faced with protests from professionals who work on a contract basis, the People's party insisted on doubling the exemption and threatened otherwise to vote for an opposition initiative to kill the law. The latest amendment should ease the impact on low-income workers and employees with minor side jobs, but will also reduce the contribution to the national budget. *Eric Frey, Vienna*

French ex-minister for trial

The Bordeaux appeals court yesterday ordered former cabinet minister Maurice Papon, 86, to stand trial for crimes against humanity for sending Jews from wartime France to their deaths in Nazi extermination camps. He was only the second Frenchman to be sent to trial for such crimes. Former militia officer Paul Touvier was jailed for life in 1994, and died in prison this year aged 81.

Papon, who rose to be Paris police chief in the 1960s and a Gaullist budget minister in the 1970s before his second world war role was exposed, is accused of having ordered deportation of 1,690 Jews, including 223 children, in 1942-44 when he was secretary-general of the Bordeaux regional administration. Most were later gassed at the Auschwitz death camp. The Bordeaux court sent Papon to a jury trial in an assize court on charges of being an accomplice to the murder and kidnapping of 10 convoys of deportees. *Reuter, Bordeaux*

Russian revenue crisis eases

A government revenue crisis prompted by a plunge in tax collections is easing because of emergency measures taken last month, a top Russian finance ministry official said yesterday. Mr Vladimir Petrov, first deputy finance minister, said further improvements are expected as a result of the approximately 60 revenue-raising measures. "In September, the situation has clearly started to improve, it's visible in the weekly data," he told the Kommersant daily.

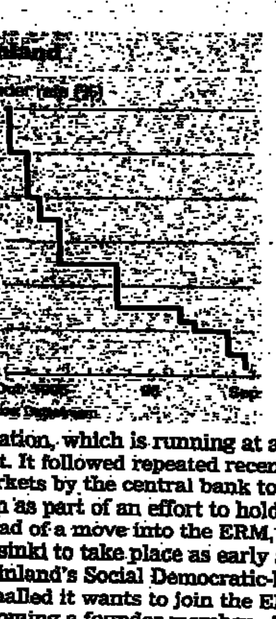
He said tax revenues will meet budget targets for the rest of the year thanks to the new measures, which will raise 30,000bn roubles ($5.6bn) by the year end. The revenue crisis has threatened Russia's $10bn loan deal with the International Monetary Fund and left the government unable to cover wages, utility bills and other basic items. *AP, Moscow*

Chernobyl fears eased

Increased radiation levels measured at the Chernobyl nuclear plant were due to faulty measuring equipment, the Finnish Centre for Radiation and Nuclear Safety said yesterday. The centre quoted a Ukrainian nuclear safety director at a meeting of the International Atomic Energy Agency (IAEA) in Vienna as saying that manual radiation measurements taken inside the plant had not shown anything out of the ordinary. *Reuter, Helsinki*

ECONOMIC WATCH

Finland cuts key interest rate



Finland's central bank cut its key interest rate for the second time within a month yesterday, fuelling speculation in financial markets that Helsinki will shortly move its currency into the European exchange rate mechanism. The tender rate was cut from 3.25 per cent to 3.10 per cent – a record low level. Long-term interest rates in Finland are now within 0.5 per cent of benchmark German rates. The central bank said the latest cut was prompted by a stable outlook for inflation, which is running at an annual rate of 1.5 per cent. It followed repeated recent intervention in money markets by the central bank to sell the markka and was seen as part of an effort to hold down the currency's level ahead of a move into the ERM, widely expected in Helsinki to take place as early as this weekend.

Finland's Social Democratic-led government has signalled it wants to join the ERM as a prelude to becoming a founder member of the planned European monetary union in 1999. *Hugh Carnegy, Stockholm*

■ Sweden had a current account surplus of Skr2.8bn ($420m) in July following a revised surplus of Skr6bn in June, the Swedish central bank reported. The June figure was revised up to Skr6bn from the previously published Skr5.2bn.

Average market expectations were for a July surplus of Skr4bn. In June 1995, Sweden had a current account surplus of Skr2.5bn, the bank said. *AFX, Stockholm*

■ Industrial orders for the six months to June fell 4.4 per cent from a year earlier, said Istat, the Italian statistics organisation. In June, industrial orders fell 15.4 per cent year-on-year, said Istat. For the six months to June, industrial sales were up 0.7 per cent year-on-year. In June, they fell 7.5 per cent from a year earlier. *AFX, Rome*

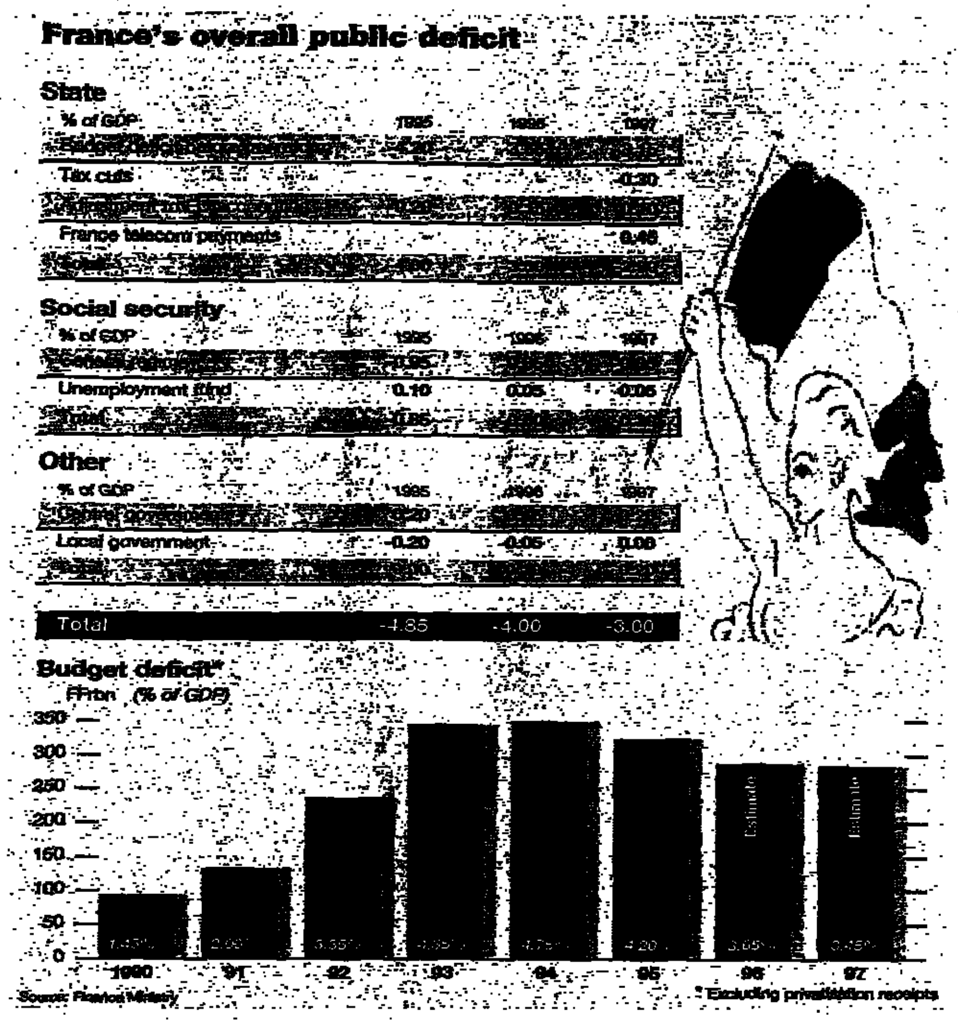
France held its breath – for FFr4bn

After one of the longest and most dramatised preparations for any budget, the French government yesterday produced a fiscal blueprint for 1997 that reduces the central state budget deficit by a mere FFr4bn ($787m).

A belated decision to start cutting taxes next year, in an attempt to revive the economy and woo voters for the 1998 parliamentary polls, forced the government to drop its earlier goal of reining in the deficit to FFr245bn. Instead, next year's budgetary shortfall is expected to be FFr283.7bn, compared with its target of FFr288bn this year.

Yet, Mr Jean Arthuis, the finance minister, stressed that he was still confident the overall deficit on the combined accounts of central and local government and the social security system would still be no more than 3 per cent of gross domestic product next year, sufficient to qualify the country for economic and monetary union in 1999. The definition of a deficit, under the Maastricht treaty, appears to allow France to count in a big one-off payment from France Télécom and certain other funds.

Mr Alain Juppé, the prime minister, had started as early as May to prepare France's political, business and union leaders for the first real cut in public spending in the Fifth Republic's 38-year history; such was, and still, is the government's determination to be a founder member of Emu, a largely French-inspired project.



However, the economy began to flag, with growth falling by 0.4 per cent in the second quarter, unemployment rose again to near-record levels, and successive small drops in consumer prices in June, July and August prompted talk of deflation. The prime minister found himself under growing pressure from his backbenchers and indeed President Jacques Chirac to bring forward long-promised tax cuts. Earlier this month he announced a first FFr25bn slice off general income tax rates in 1997. Once that decision was taken last month, the FFr245bn deficit target became unachievable.

But the government has at least kept its promise to hold spending next year at last year's level of FFr1,559bn. Given inflation estimated at 1.5 per cent next year, this means a cut in real terms. To offset increases in debt servicing and civil service pay – which Mr Juppé will relax next year after this year's public wage freeze – the government had to find savings of FFr60bn from what ministries, under existing policies, would have otherwise spent in 1997.

It still plans to increase job-creation subsidies next year, but by FFr15bn less than it had planned to do. As with employment policies, it is also making housing subsidies more selective. Anxious to avoid trouble with the teachers, the government is to spend 2 per cent more on education, but is to cut by around 4 per cent money for the interior and foreign ministries.

The 1997 draft budget is based on an assumption that the economy, predicted to grow by 1.3 per cent this year, will expand by 2.3 per cent next year. Mr Arthuis called this forecast "prudent and realistic".

But the tax cut stimulus will not be great. In addition to the FFr25bn which the government is to leave in income taxpayers' pockets next year, there will be a carryover in 1997 from some consumption-boosting measures decided by the government after last December's disastrous public sector strikes. But offsetting this will be new social security charges, tobacco and alcohol taxes next year totalling FFr13bn. Proceeds from the latter two "health" taxes are to be funnelled into the social security system to help bring its deficit down from FFr50bn this year to FFr30bn next year.

The 1997 budget measures are likely to come under fire from the public sector unions, upset by the government's decision to cut the 2.2m strong civil service by 6,000 next year, and from within Mr Juppé's own centre-right parliamentary majority, some of whom would have liked deeper tax cuts in the run-up to the 1998 elections.

But as Mr Arthuis said almost pleadingly yesterday, "If anyone thinks we could have done more to cut taxes next year, I would like to hear where we could possibly have cut spending more" to allow for bigger tax cuts.

David Buchan

The magic of Maastrichtian mathematics. . .

By David Buchan in Paris

The French government has fully exploited the magic of Maastrichtian mathematics to convert a projected 1997 state budget deficit of 3.45 per cent of GDP into an overall public deficit of 3 per cent, the exact figure required to qualify to join the EU's economic and monetary union. France so far meets all other Maastricht criteria on debt, inflation, interest and exchange rates.

Some unkind spirits might conclude that the 1997 budget had been concocted in Versailles' Hall of Mirrors rather than the finance ministry's dour fortress at Bercy. However, Mr Jean Arthuis and his team have taken full advantage of the fact that the EU definition of a deficit goes wider than the gap between current spending and revenue. This holds a country's overall public deficit to be the total amount it needs to borrow to cover the gap between the change in its total liabilities and the change in its total assets.

France realised last year it could no longer use privatisation receipts to cut its Maastricht deficit, because these sales reduced its state assets by the same amount and left its net worth unchanged. By the same token, however, recapitalisation of state companies does not raise the Maastricht deficit because it, notionally at least, increases state assets by the same amount.

This latter asset "gain" is traditionally ignored in French budgets. But if it is included under the Maastricht arithmetic, it lowers the French deficit – by FFr13bn ($2.53bn), for instance, in 1995.

Next year's big windfall, however, comes in the form of the special FFr37.5bn payment by France Télécom to the government to cover future pensions liability for its employees – part of a deal with the unions on the company's partial privatisation. This imposes a new liability on the state, but one that is difficult to calculate and is not, according to Bercy, calculated in the national accounts of any EU state running similar pay-as-you-go pension schemes.

Paris consulted Brussels on the France Télécom payment and the European Commission said this week that "at first sight" it sees no problem.

Two other non-budgetary factors have also helped. As in 1995 and this year, The government is again adjusting downwards its debt servicing, which appeared to be larger than it really was because buyers of bonds in mid-year appeared to be getting a full year's interest when in fact they had paid a higher initial price for their bonds. This year has also seen the special new RDS tax to repay past social security debt. For the moment, this tax is bringing in more – FFr6bn this year and FFr12bn next year – than is being used to repay the debt, and therefore it appears to count as a surplus.

Call to convert into euros in 1999

Pressure on Bonn over DM bonds

By Gillian Tett and Richard Lapper in London

Pressure is mounting on the German government to announce it will convert D-Mark government bonds into euros as soon as European monetary union starts in 1999.

Such a move, which follows similar action by France, could further boost the credibility of Emu and also help prevent Paris gaining a competitive edge over Frankfurt in the battle for the continent's capital markets business.

The proposal has generated deep unease in the German finance ministry, which will take the decision. It fears the move could prove unpopular among German investors.

German banks and market traders have been pressing the government to "re-denominate" D-Mark bonds into euros for the past few months; it is understood Bundesbank officials will advise the German finance ministry to take the step after widely discussing the issue in recent weeks.

The Bundesbank has refused to comment on the issue but has privately indicated it supports some early conversion.

Mr Ernst Welteke, a member of the Bundesbank council, said last week: "So that we do not have split markets, I urge speedy switch-over of bonds into the new euro currency."

Yesterday, a spokesman for the Deutsche Börse, Germany's stock exchange, said he was confident a decision to re-denominate existing D-Mark denominated debt in 1999 would be taken by the end of this year.

The issue has become significant for the financial markets recently, because of a split between the stance taken by the French and German governments.

Last year, European governments announced all new public-sector debt would be issued in the single currency, the euro, after 1999. But they did not indicate what would happen to the stock of outstanding government bonds in currencies such as the D-Mark which expire after 1999.

The French government has announced it will convert all its outstanding public debt in francs to euros in 1999. This will create a pool of liquidity in euros, which should help Paris in its efforts to become a centre for trading in euro-denominated money market and debt instruments, as well as bond futures contracts.

French bankers also recently persuaded the European Commission to stipulate in its legal proposals for Emu that governments could have powers to convert the markets.

But so far, the German government has refused to follow the French lead in calling for early re-denomination.

Some German officials fear euro debts would be more expensive to service than D-Mark debt. There is also concern that German investors would shun euro debts, particularly since the conversion from D-marks to euros is likely to result in ugly numbers.

One economist involved in the discussions said: "I cannot see the German government rushing into this, it is a very delicate matter." But some big German banks, such as Deutsche Bank, are now pressing for the early conversion of the most liquid part of the German government debt.

Traders fear that if Paris creates a pool of liquidity in euros before Frankfurt, this could give French markets a competitive edge.

Burmese petrol prices double

By Ted Bardacke in Bangkok

Petrol prices have nearly doubled in Burma in the past week and the government, believed to lack foreign exchange to pay oil traders, has failed to renew a long-term petroleum supply contract.

Queues of several hundred cars have been reported in Rangoon, the capital, and in neighbourhoods where the ruling military élite lives who may have access to information about impending petrol shortages. Diesel and petrol is scarce or unavailable in the Shan state and other parts of upper Burma, residents say.

Burma had an exclusive long-term crude oil supply contract with Mitsui of Japan which expired in July and was not renewed. A senior Mitsui official in Rangoon said the company "had no conflict" with the Burmese government but said it had not been paid for all oil delivered. Diplomats estimate the outstanding balance still owed to Mitsui by the Burmese government to be between $27m and $31m.

An oil trader in Singapore said the Burmese government had failed to issue a new tender for long-term supply, adding that word of the money owed to Mitsui had spread, making the situation for the government difficult on the spot market.

Burma's economic problems have been highlighted in recent months by the withdrawal of several western companies concerned about consumer boycotts because of the country's human rights record. Burma says in most cases Asian investors have replaced the departing westerners.

In July, the Burmese currency, the kyat, was devalued by 28 per cent reflecting what economists say is a shortage of hard currency. Rice exports, a leading foreign currency earner, have fallen to 400,000 tonnes in fiscal 1995-96 compared to 1m tonnes the year before.

Petrol prices in centres such as the rice-producing Irrawaddy Delta rose from 450 kyat to 600 kyat a gallon. With the rice harvest season beginning in six weeks, farmers will have trouble milling and transporting rice for both domestic consumption and export if these prices are sustained.

Burma's domestic petrol-marketing system is a cause of the difficulties. In an effort to subsidise meagre military and civil servant salaries, the government allocates tickets to certain state employees letting them buy a gallon of petrol at 25 kyat. These tickets are then sold on the black market to owners of private cars.

The government's failure to renew supply contracts with Mitsui carries a particular resonance because the Japanese company is the architect of a master plan for the country's industrial development and is the lead partner in a consortium developing a $125m "3-in-1 project" consisting of a natural gas pipeline, fertiliser plant and electricity station.

Japanese trade surplus shows 31% fall

By William Dawkins in Tokyo

Rising oil prices contributed to a 31 per cent decline in Japan's trade surplus to Y369.47bn ($3.35bn) in August compared with the same month last year, the 21st consecutive monthly fall, the finance ministry said yesterday.

The fall was less steep than the markets had expected but will help ensure that trade differences stay in the background when Prime Minister Ryutaro Hashimoto meets US President Bill Clinton in New York next week, for a summit in the margins of the United Nations General Assembly.

A finance ministry official said the trend was expected to continue, though private-sector economists warned that the decline was slowing as a weaker yen lifted the competitiveness of Japanese exports. In July, the surplus was down by 38.4 per cent.

The politically sensitive bilateral surplus with the US decreased by nearly 17 per cent to Y222.3bn, much faster than the 6.5 per cent fall in July and the 18th consecutive month of decline.

Japan's surplus with the European Union was down by 17 per cent last month and the surplus with the rest of Asia by 11.4 per cent compared with the same month last year.

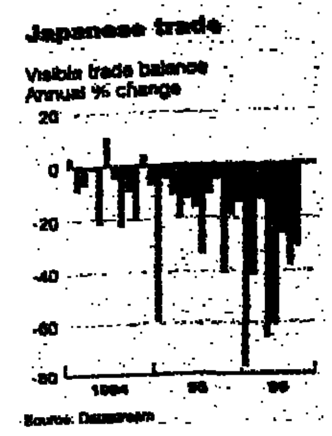
Within the total surplus, exports rose by 8.7 per cent to Y3,472bn, easily outrun by the growth in imports, up 16.6 per cent to Y3,102bn. The ratio of finished products to total imports rose a fraction to 59.4 per cent, a reflection of Japan's continuing shift from a nation of processors of raw materials for re-export, to consumers.

Import growth, however, was unusually swollen by a 54 per cent rise in Japan's monthly oil bill and by the purchase of three large aircraft from the US. Other data, such as last week's announcement of a 2.9 per cent annualised drop in gross domestic product in the second quarter to June, suggest that domestic demand has weakened.

Exports were helped by the weakness of the yen, allowing the Japanese car industry to increase overseas sales by 18 per cent. Exports of personal computers and other office equipment rose by 20 per cent.

Japanese demand remains modest on evidence released by the Bank of Japan yesterday of a 3.7 per cent growth in the main measure of money supply – M2 plus demand and time deposits – in the year to August, a growth rate unchanged from the previous month. But on another measure, broad liquidity, money growth is slowing, a consequence of lower bank lending growth and a fall in public works spending in August. Broad liquidity grew by 3.7 per cent in August, down from 4 per cent in July and the weakest rise since April.

Meanwhile, sales in Tokyo department stores in August rose by 2.5 per cent from the same month last year, after falling by 2.7 per cent in July, the first drop in seven months.



Bureaucrats braced for assault by 'soft ice cream'

A fresh campaign to change the face of Japanese government got off the ground yesterday when the first new political party to be formed for nearly two years began its formal search for candidates for the imminent general election.

The new group, formed by Mr Yukio Hatoyama, 48, a scion of one of Japan's richest and most powerful political families, is devoted to waging war on the bureaucracy. Aspiring supporters and critics alike are sceptical. Several anti-bureaucratic campaigns by weightier parties in recent years have brought little result.

Former prime minister Yasuhiro Nakasone likens the new group to soft ice cream. It tastes sweet but will melt under the political heat, he quips.

But, at the least, the group, named Democratic party, represents a big step in the fragmentation of Japan's political opposition as its members are mainly defectors from the three main opposition groups, to the potential benefit of the increasingly dominant Liberal Democratic party. At most, it could rise above the role of breaker-up of declining parties to become an influential partner in the next government, likely to be another coalition led by the conservative LDP.

If Mr Hatoyama's group lives up to its hopes, its fortunes will be of interest to Japan's trade partners as they pray for real, rather than the hitherto cosmetic, cuts in the government regulations which impede access to one of the world's richest consumer markets.

The group attracted 37 mostly centre-left members of parliament to join its founding committee at an overnight meeting in the Diet on Tuesday and is aiming, perhaps optimistically, to field 200 candidates in the coming election for the 500-seat lower house of parliament. Up to 30 MPs from the Social Democratic party are poised to join, which would complete the SDP's slow-motion break-up. Analysts in Tokyo believe Mr Hatoyama's group could win 40 seats or more in a general election in the next few months, depending on how many defectors from other parties join its ranks.

Mr Hatoyama's opponents doubt he will succeed in making government more sensitive to the aspirations of Japan's understandably confused electorate. After all, the mainstream parties pay lip-service to a more open government and less regulated economy and yet have brought only slow change to the web of shared interests and consensus that bind Japanese life.

The most recent new political party, the New Frontier party, formed at the end of 1994, also wanted change. Yet today, it is struggling to stem defections of members disillusioned at its waning popularity and inability to agree on clear policies.

But Mr Hatoyama's supporters maintain he does have sufficient political clout, cash and popular appeal to gain enough seats to influence the next government.

The clout, as is usual in Japanese politics, is all in the family. Mr Hatoyama's grandfather, a former prime minister, was founder in 1955 of the LDP, which held a monopoly of power for 38 years until 1993. Other Hatoyamas have been foreign and deputy finance ministers and Yukio's brother, Kunio, is also a leading member of the new group. The family home in central Tokyo is something of a temple of modern Japan, for it was there that factions of conservatives negotiated the deal that led to the LDP's birth.

The cash, too, runs in the family. Mr Hatoyama is one of the richest members of a rich parliament thanks to his mother, daughter of the founder of Bridgestone, Japan's largest tyre company. The new party was Mrs Yasuko Hatoyama's idea and she has contributed to her sons' election offices.

Mr Hatoyama has attracted a strong and youthful supporting cast. They include Mr Naoto Kan, the health minister, who has earned admiration for exposing bureaucratic responsibility for the distribution of Aids-tainted blood to haemophiliacs.

The new party's possible weakness, on the other hand, is lack of ideology. But that quality is shared by all political groups with the possible exception of the Communists – who are enjoying something of a comeback.

When seeking to prepare a manifesto last month, the best Mr Hatoyama could come up with was "friendship and love". Later, he explained that the new party was to follow the concept of *sei-min*, meaning politicians and people, rather than the traditional *kan-min*, meaning bureaucrats and people. Worse, its Democratic party title does not help Japan's uncommitted voters, more than half the total, to distinguish between it and the Liberal and Social Democratic parties.

Mr Koichi Kato, the LDP's secretary-general, says policies will be less important to the success of future governments than coalition management.

If, as seems likely, Mr Hatoyama pulls in a significant minority of seats in the next election, the LDP will face a management challenge: how to handle a group with slightly more progressive aspirations than its own.

William Dawkins

ASIA-PACIFIC NEWS DIGEST

North Korean 'infiltrators' die

Eleven North Koreans who landed in the South from a submarine were found dead yesterday, possibly shot by one of their number who turned the gun on himself, a South Korean defence ministry spokesman said. A 12th was captured after a massive search while another eight or nine were still at large, the spokesman said. Authorities in the South described the North Koreans as infiltrators.

"This incident is a grave provocation and a definite infiltration against South Korea by North Korea," the director of operations at the Joint Chiefs of Staff, Kim Dong-shin, told a news conference. After a cabinet meeting Kwon O-kie, unification minister, said the infiltration was "a direct threat to our national security".

The captured North Korean, Mr Lee Kang-soo gave a different account, telling interrogators the submarine drifted into South Korean waters after developing engine trouble. It was stranded on rocks 9km south of the east coast city of Kangnung. Authorities said it apparently hit a reef while returning to the North after dropping off infiltrators on a beach. The blood-soaked bodies of 11 North Koreans were found on top of a mountain dressed in jeans and sneakers. *Reuter, Seoul*

Karachi bombs end calm

At least one person was killed and four others injured when three bombs exploded in the business district of Karachi, Pakistan's southern port city, yesterday. The first explosion occurred near an office of Pakistan International Airlines while the second was near the offices of the provincial government of Sindh, of which Karachi is the capital. Yesterday's blasts shattered months of calm in Karachi. *Farhan Bokhari, Islamabad*

India to pay Sikh relatives

India announced yesterday it would pay $24m to relatives of people killed in anti-Sikh riots after the murder of Indira Gandhi, prime minister, more than a decade ago. The government's decision follows a court order last month directing it to pay compensation to nearly 3,000 victims of 1984 carnage within four months, K. Padmanabhaiah, home secretary, told the Press Trust of India. An Indian court on August 27 sentenced 93 Hindus to five years' hard labour for taking part in the riots sparked off after two Sikh bodyguards murdered Mrs Gandhi on October 31, 1984. *AFP, New Delhi*

Daughter's land plea boosts Thai PM

By Ted Bardacke in Bangkok

The daughter of the embattled Thai prime minister Banharn Silpa-archa may have saved her father's job yesterday after she put up a robust defence of her role in a controversial land sale on the first day of a no-confidence debate.

But Ms Kanchana Silpa-archa told parliament that she continued to urge her father to resign and leave her family at peace. "I have asked him to retire from politics and will continue to try to persuade him," she said.

The prime minister is likely to ignore his daughter's advice just as he has ignored similar urgings from supporters and political enemies to step down as head of a widely discredited government.

In yesterday's debate, Ms Kanchana Silpa-archa was accused by opposition legislators of using her father's influence to make a 1,476 per cent profit on the sale of a 75 rai (120,000 sq metres) piece of land to the central bank. The bank plans to build a new currency printing plant on the land.

Ms Kanchana said she bought the land for Bt226m ($8.9m) in 1990 – not the Bt29m tax records show – and therefore only doubled her money in selling the land to the central bank for Bt465m. After taxes, interest on loans, brokerage fees and other expenses, she said she made a profit of only Bt60m from the sale.

"I could have made more money in another business," Ms Kanchana said. Ms Kanchana said the seller of the land was responsible for under-reporting the sale price to land department officials in an attempt to avoid capital gains taxes, a widespread practice that routinely goes unpunished.

Her strong defence of the sale contrasted with her inability to address associated allegations that Mr Banharn, as finance minister in 1990, had asked the central bank to change the location of the mint. The bank had already bought land in another area in 1989 for the new mint but later backtracked.

Most of the rest of yesterday's debate, which is expected to stretch for two more days with the censure motion put to a debate on Saturday, focused on Mr Banharn's inability to run the country effectively.

"The prime minister is guilty of mismanaging the country; irresponsibility, lack of vision, turning a blind eye to corruption in his coalition and abusing power for personal gain," opposition leader Mr Chuan Leekpai said in his opening address.

"The prime minister has lost the legitimacy to run the country. He will only bring damage to the nation and the democratic parliamentary system," Mr Chuan said.

Chuan: strong attack on prime minister

Ramos nearer right to second term

Campaign to change constitution has gained momentum, writes **Edward Luce**

President Fidel Ramos was asked recently whether he had a shortlist of possible candidates to succeed him after his term expired in 1998. Mr Ramos, who has remained aloof from a campaign to amend the Philippine constitution which would enable him to stand again, joked: "I have a *very* short list. And it's getting shorter every day."

With more than half the required 3.5m signatures already gathered for a petition which would trigger a plebiscite to scrap the single-term limit, opponents of Mr Ramos think his shortlist has already been narrowed down to just himself.

Indeed, the petition, which is expected to achieve the required 12 per cent of the electorate's signatures by early 1997, looks increasingly likely to lead to a referendum next year. And Mr Ramos could be in power until 2004.

"The administration has a lot of unfinished business," said a senior presidential aide. "Mr Ramos would be keen to run again but only if he had genuine public backing."

Senior government sources say Mr Ramos has two basic preconditions before he would consider standing again. First, the initiative must come from the grassroots. All the signs are that this is so far the case. The fact that 86 of the 204 elected congressmen and about a third of the country's provincial governors and mayors must also stand down in 1998 because of the term restrictions has given the "people's initiative" a wide constituency of support.

Second, the campaign to amend the 1987 constitution must not generate controversy before the Apec (Asia Pacific Economic Co-operation forum) leaders' meeting in Manila this November. The meeting, which will include President Bill Clinton of the US and President Jiang Zemin of China, will put the Philippines in the international spotlight.

Strong opposition to the proposed amendment – notably from former president Mrs Cory Aquino, who *framed the constitution*, and vice-president Joseph Estrada, who says it is his "destiny" to run for the job in 1998 – would embarrass the government.

"I have no doubt that President Ramos wants to continue beyond 1998 but he wants to minimise any controversy before the Apec meeting," said Mr Exequiel Garcia, president of the Philippine constitutional association, a group of lawyers and businessmen who want to alter the charter. "All the signs are that a large part of the electorate would support an amendment to the constitution – and why not? No one can accuse Mr Ramos of planning to set up a political dynasty."

The idea is also backed by many in the Philippine private sector, which has benefited from the Ramos administration's economic reform programme since 1992 and can point to the president's positive image among foreign investors.

Opponents of the move, however, say that the amendment would ignite memories of the late president Ferdinand Marcos, who tried to set up an authoritarian dynasty but was overthrown in a peaceful revolution in 1986. Mr Marcos's wife, Imelda, was mayor of Manila for 10 years and his son, *Bong Bong*, has attempted to keep the torch burning since the family returned from exile in 1992.

Few, except some splinter groups on the hard left, believe Mr Ramos plans to do the same. The president has three daughters, none of whom holds political office. But his opponents, who would include most of the hopeful candidates for 1998 of whom at least five have declared their ambitions publicly, would paint the move as a step back towards the Marcos era.

"President Ramos has done a good job since 1992," said Senator Raul Roco, who is planning to stand for the top post in 1998. "But that does not mean we should allow Mr Ramos or his supporters to manipulate the constitution for their own purposes."

Even if Mr Ramos were to come out in favour of the change, however, many believe it could be swamped by thorny legal objections. Presidential candidates could question the authenticity of the signatures, for example. "In the Philippines everything can end up in court," said Mr Bill Luz, secretary of the Makati Business Club, the largest private sector forum.

'Destiny' to be president: Joseph Estrada, the vice-president, opposes a constitutional change that would let Fidel Ramos stand for a second term. Reuter

Australian unions in Jakarta cargo ban

By Bruce Jacques in Sydney and Manuela Saragosa in Jakarta

Australian maritime unions have imposed bans on all Indonesian shipping movements and cargoes in protest at the recent arrest of two Indonesian labour leaders.

The bans are an embarrassing footnote to this week's visit to Indonesia by Mr John Howard, Australia's prime minister, for talks with President Suharto.

The row has further marred a visit already overshadowed by China's threat on Tuesday of trade retaliation against Mr Howard's plans to meet the Dalai Lama, Tibet's exiled leader, at present visiting Australia.

The bans were announced by the Maritime Union of Australia (MUA), as Mr Howard flew out of Indonesia on his way to visit Japan's prime minister Ryutaro Hashimoto and Japanese business leaders.

The Australian bans are in line with a worldwide campaign by the International Transport Workers' Federation, representing over 5m workers in 120 countries, protesting at the arrest of one of the men, Mr Muchtar Pakpahan. He is the former leader of the independent Indonesian Prosperous Labour Union (SBSI), which is not recognised by the government.

An official at the Indonesian foreign affairs ministry in Jakarta said the MUA's bans were "to be regretted" and will harm the efforts to build up relations between the two countries.

Mr Vic Slater, MUA assistant national secretary, said the bans were in response to Mr Howard's alleged failure to push human rights and political freedom issues during his Indonesian visit.

The bans were designed to disrupt Indonesian shipping services and create a climate of unreliability among the nation's other trading partners. The first ship to be affected would be the Bogasari Embat, due in Western Australia late yesterday to load 32,500 tonnes of wheat.

Mr Pakpahan and the second arrested labour leader, Mr Dita Sari, were said to have been implicated in recent pro-democracy riots in Jakarta, the worst in two decades, and are held on subversion charges.

Mr Pakpahan, arrested three days after the July 27 riots, lost a suit against five officials of the Jakarta attorney-general's office in which he accused them of detaining him illegally.

Further anti-Indonesian sentiment surfaced in Darwin yesterday, when demonstrators burned a replica Japanese flag to mark East Timorese Independence Day. The demonstration was aimed at raising awareness of Japan's role as biggest foreign aid donor to Indonesia.

Peronist leaders try to salvage austerity bill

By David Pilling in Buenos Aires

Leaders of Argentina's governing Peronist party were yesterday desperately trying to ensure parliamentary passage of a tough austerity bill after last week's fiasco when not enough of their own deputies turned up to reach a quorum.

Approval of the bill, on which debate was expected to continue into the early hours of this morning, is seen as a crucial test of President Carlos Menem's ability to rally his increasingly fractious Peronist party.

Peronist leaders have spent the past days twisting the arms of those deputies who, mindful of next year's mid-term elections, have refused to back an austerity package that aims to raise an additional $3bn annually in taxes. The original 21-point plan, which set its sights on extra revenue of $4bn-$4.5bn, has been savaged by politicians and interest groups, reducing the package to its bare bones.

President Menem, in an article published in yesterday's Clarin, said he would not hesitate to rule by decree should parliament prove unmanageable. Ironically, it was the opposition Frepaso party which was yesterday hinting that it might attend the debate, thereby providing quorum. All Frepaso deputies were, however, expected to vote against the package.

Eventual passage of the austerity bill is fundamental to the new targets agreed with the International Monetary Fund, with which Argentina this week finalised a revised deal.

According to the letter of intent, which must still be ratified by the IMF's board, the $3bn from the austerity package will help Argentina reduce its budget deficit next year to $3bn, or 1 per cent of gross domestic product. If the extra costs involved in cutting the state bureaucracy and transferring provincial pension schemes to state level are counted, the deficit is allowed to reach $4.5bn.

The letter of intent also includes the granting of a waiver for Argentina's missed fiscal targets in the first half of this year, which the IMF blamed on sluggish receipts of value-added tax and growing deficits in the social security system.

The Fund has agreed to accept a budget deficit for 1996 of $5bn after privatisation receipts, or $6bn discounting such revenue. The original target had been a balanced budget, with an ambitious $2.5bn coming from privatisations.

Among positive factors highlighted by the Fund, such as healthy reserve and bank-deposit levels, is the improving situation of provincial finances. The overall provincial deficit of $3bn last year is expected to be reduced to $1.1bn this year, and to reach a $300m surplus in 1997.

Canadian car union makes headway

A new labour agreement between Chrysler's Canadian subsidiary and the Canadian Auto Workers union appears to have strengthened the union's hand for forthcoming contract talks with General Motors, writes Bernard Simon in Toronto.

The CAW claimed the deal, reached shortly before a strike deadline on Tuesday night, was an important victory on the contentious issue of contracting work to outside, usually non-unionised, parts suppliers.

Chrysler agreed to replace any jobs lost to "out-sourcing" at its Canadian plants, provided it was making a profit. Out-sourcing is expected to be the thorniest issue in the negotiations.

The first contract with the Big Three North American motor manufacturers traditionally sets a pattern for talks with the other two. However, GM Canada has made less progress than Chrysler in sourcing components from outside suppliers, and is expected to take a tougher line with the union.

GM has given notice that it plans to sell two parts plants employing a total of 5,000 workers, or almost a fifth of its workforce in Canada. Its operations in the US and Canada are closely integrated. The three-year Chrysler deal provides for an annual wage increase of 2 per cent and improved health-care and vacation benefits.

Insider trading ruling leaves hole, says SEC

By Tracy Corrigan in New York

The US Securities and Exchange Commission has asked a federal appeals court to reconsider a ruling which threatens to narrow the definition of insider trading in the US courts.

The ruling rejected the use of "misappropriation theory", a tool which enables courts to convict people who deceitfully use information in violation of trust and confidence, rather than just in breach of strictly defined fiduciary duty. This means, potentially, that an executive dealing on insider information would be guilty of insider trading, but a family member using information obtained from that executive would not.

"This decision leaves a real hole in the ability of the regulators to enforce insider trading rules," said Mr James Morphy, head of mergers and acquisitions at Sullivan & Cromwell, a leading New York law firm. "Eventually the Supreme Court or Congress will have to fill this hole."

The ruling was made in August by the Eighth US Circuit Court, which covers several midwestern states. Since few cases are brought in this area the ruling is unlikely to have an immediate impact on SEC prosecutions, but other circuits could follow this lead.

In the US, insider trading is covered by broad anti-fraud rules; coupled with the "misappropriation" concept, this has so far proved a satisfactory way of prosecuting insider traders, according to Mr Richard Walker, SEC general counsel. But "if other courts followed, we might approach Congress" for legislation defining insider trading more specifically, he said.

The ruling was made in connection with a criminal case against Mr James O'Hagan, a Minneapolis lawyer accused of improper trading in Pillsbury stock options ahead of the acquisition of the US company by the UK's Grand Metropolitan in 1988.

If the court does not reverse its ruling, it could in theory encourage insider traders to deal within the Eighth Circuit Court's jurisdiction. But in practice, the SEC has considerable leeway in deciding where to bring prosecutions; and an insider would have to gain information on a local company and deal through a local broker on a local exchange to have any chance of taking take advantage of the ruling. The more important Second, Seventh and Ninth Circuit Courts have all accepted misappropriation theory.

OBITUARY: SPIRO AGNEW

The vice president who fell from grace

By Nancy Dunne in Washington

Mr Spiro Agnew, the US vice president who resigned in disgrace in 1973, died on Tuesday without ever achieving the modest political rehabilitation gained by his one-time boss, President Richard Nixon.

Mr Nixon left the White House 10 months later under the cloud of the Watergate scandal. His crimes were essentially political – wire-tapping, break-ins and lying about them. He ultimately fashioned an elder statesman role for himself and lived to hear praise of both his foreign and domestic policy achievements.

Mr Agnew took pay-offs from businesses for using influence on their behalf. His hastily arranged departure came with a plea bargain – pleading no contest to one count of income tax evasion.

From there he went into an obscure retirement, denying any wrong-doing and insisting that he had resigned from office to spare the nation the agony of a trial.

It was he who was spared a trial. If it were not for the national trauma of Watergate he may have risked becoming the first vice president to endure prison. Instead, he set up as an international trade consultant, wrote a novel and retired to a luxury community near Palm Springs.

Mr Agnew did not go unmourned. The mayor of the town of Gargalianoi, from which Mr Agnew's family had emigrated, issued a statement calling him "a good man who made us proud."

Mr Agnew's rise was almost as spectacular as his fall. He was elected Republican governor of Maryland, running against a Democratic racist and garnering the support of blacks and liberals. Mr Nixon selected him as a running mate in 1968 and made him the campaign "attack dog" so that Mr Nixon could look presidential. He became "Nixon's Nixon" – a reference to his boss's role when he was President Dwight Eisenhower's vice president.

He did little but attack throughout his years in the vice presidency, dismissing White House opponents as "nattering nabobs of negativism" and "an effete corps of impudent snobs."

Mr Agnew's critics ridiculed his blunders and ethnic slurs.

Democrats tried to use him to get to Mr Nixon. In one commercial he was shown making a speech, but the sound track consisted of only loud laughter and the tag line: "This would be serious if it weren't so funny."

Agnew: Nixon made him the campaign "attack dog" AP

Copper market co-operation new, hearing told

By Laurie Morse in Washington

The head of the US commodity trading regulator indicated yesterday that, despite evidence of world copper market abnormalities, international regulatory co-operation did not proceed smoothly until after Sumitomo's losses became public in June.

Miss Brooksley Born, the chairperson of the Commodity Futures Trading Commission, the chief futures and derivatives regulator in the US, told a congressional hearing yesterday: "Routine information sharing for supervisory purposes is relatively new to the international community, and the production and review of surveillance information by certain markets is uncommon and in early stages of development."

However Miss Born said that her agency did not need extra powers to supervise market events such as the Sumitomo losses and the subsequent 25 per cent drop in world copper prices. In fact US bank exposures to Sumitomo corporation's copper trading activities have so far been minimal and copper trading losses appear to be limited to the Sumitomo trading company itself, according to Federal Reserve governor Susan Phillips, who was testifying at a house banking subcommittee hearing on the affect of the Sumitomo affair on US markets and financial institutions.

However, the banking regulator emphasised that the review of Sumitomo's copper transactions, which generated $1.8bn losses for the company, will continue.

Two US banks believed to have helped finance Sumitomo's copper trading activities, JP Morgan and Chase, declined to testify at the public hearing.

Miss Phillips, who is a former chairperson of the CFTC, also said that additional regulation in the US would not have prevented Sumitomo's trading losses.

WORLD TRADE NEWS DIGEST

Car rivals in Polish scrap

Daewoo of South Korea has threatened to wind down its investments in Poland if the government fails to block a local car assembly operation by rival South Korean conglomerate, Hyundai. Mr Kim Woo Choong, the head of Daewoo, has written to Mr Wlodzimierz Cimoszewicz, the Polish prime minister, threatening a cut in his company's planned $1bn investment if Hyundai is permitted to proceed with plans to assemble 15,000 cars in Poland next year. Daewoo has said it wants to produce 300,000 cars a year in Poland by 2000.

Last month the Polish government introduced new import rules aimed as discouraging assembly operations in order to smooth the way for major investors in Poland's growing car market. These are Daewoo, Fiat and General Motors. However, last month Hyundai raced to establish an assembly operation at Pultusk, north-east of Warsaw, just before the new rules came into operation. The Korean company is working with Universal, a listed trading company with strong links to the former communist Left Democratic Alliance (SLD), the senior ruling coalition partner. The government has withdrawn a permit for duty free import of components for assembly leaving Hyundai with around 20 completed cars. Universal has said it will appeal against the decision. If successful it would break the industry ministry's policy of favouring capital investors against assembly operations.

The industry ministry is a stronghold of the Polish Peasant party, which is a junior partner in the government coalition. *Christopher Bobinski, Warsaw*

CME in Ukraine TV venture

Central European Media Enterprises, the US pioneer of private commercial television in eastern Europe, is expanding its operations in Ukraine. It is to acquire a 50 per cent holding in the Studio 1+1 group, which provides 50 hours of prime time programming for Ukraine's state-owned UTV Channel 1. Studio 1+1 provides popular entertainment shows and films and has the right to sell advertising. CME said the total Ukraine advertising market was expected to grow this year to $35m from $15m in 1995, with television advertising rising to $20m by the end of this year from $9m in 1995. CME is also seeking to establish a national private, commercial television station in Ukraine. *Kevin Done, East Europe Correspondent*

US steps up 'tied aid' fight

The US Export-Import Bank has stepped up its campaign against the use of tied aid by its competitors, matching more than $2.5bn of actual and potential foreign tied aid credits in 37 cases since April 1994, according to a recent report. The use of the Export-Import bank "war chest", known as the Tied Aid Capital Projects Fund, has achieved considerable success in countering the use of tied aid, a practice that links foreign aid and commercial credit to donor country exporters. Eximbank counters a tied aid agreement by offering similar financing to US exporters. *Afshin Molavi, Washington*

BT and Dutch railways in telecom venture

By Gordon Cramb in Amsterdam

BT, the UK telecoms group, and NS, the Dutch state railways, are to invest Fl 1bn ($590m) to establish a fixed line telephone service for the Netherlands which aims to be the main rival to KPN, the privatised posts and telecoms utility.

Their joint venture, foreshadowed late last year and unveiled yesterday under the name Telfort, will start immediately by offering Dutch-based companies international connections through the Concert system developed by BT and MCI, its US partner.

A domestic fibre optic network, of which NS Telecom has already laid 1,000km along its tracks, will form the basis of a national service which awaits a licence from the Dutch government. The transport ministry, which oversees telecoms, has two licences on offer for building a nationwide infrastructure, and expects to award these by the end of the year.

From next July, successful applicants for those and more than 1,300 regional licences will be able to provide voice telephony. Energy utilities and cable television providers are among those also in the race.

But several regulatory issues, notably those governing interconnection of rival services, have yet to be resolved. Mr Koos van der Meulen, who will head Telfort, said yesterday a UK-style system was the most desirable – where Oftel as industry regulator not only ensured interconnectivity but had the power to determine the rate at which providers billed each other for such links.

Because of this, the UK rate at 3p a minute was the lowest in the world. Saying that "we cannot put a double cable into all households," he argued for "asymmetric regulation, where new arrivals need a hand up" – as Mercury had received in Britain when it entered competition with BT 12 years ago.

A decade from now, Telfort expects a 5 to 10 per cent share of a total Dutch telecoms market, which is now worth Fl 15bn and ranks as Europe's sixth biggest. The extent of the NS fibre optic network is to double within a year, though not all Dutch households will be able to connect to the new service by the launch date.

The size of BT's investment ranks below those made in larger national markets such as Germany and Spain. But Mr Pat Gallagher, director of BT Europe, said the Netherlands' position as a "trading hub and European gateway" made it attractive. The company has been active there since 1989, serving Dutch and foreign multinationals.

VW in $1bn Beetle plans

By Leslie Crawford in Mexico City

Volkswagen plans to invest $1bn in a new Mexican factory for the "New Beetle", a successor to the famous 1930s model, which will be launched in September 1997.

The German company is expected to announce its plans tomorrow when Chancellor Helmut Kohl, who is on a state visit, tours its plant in Puebla, near Mexico City.

"We had originally planned to invest $600m in Mexico, but we are expanding the investment programme to be able to market the New Beetle worldwide," Mr Gerardo Lopez Valadez, Volkswagen's spokesman in Mexico, said yesterday.

Volkswagen's expansion is one of the biggest foreign investments to be announced since the devaluation of the peso in December 1994 triggered Mexico's financial crisis and substantial capital flight.

The government is likely to hail the plans as proof of Mexico's rehabilitation. Foreign direct investment totalled $3.1bn in the first half of the year, a respectable figure considering the low level of domestic demand in the economy.

Volkswagen's Mexican operation was hit particularly hard during the recession in 1995. The financial crisis eroded middle class incomes and sales of budget cars such as the old Beetle collapsed.

The company tried to make up for the loss by finding new foreign markets for its Mexican cars, so that Volkswagen now exports four times as many vehicles as it sells domestically.

The company's Puebla plant produced 110,174 vehicles in the first half of 1996, an improvement over 1995 but still below its pre-devaluation output.

A prototype of the New Beetle – which is the first Volkswagen car to have been designed outside Germany – has already been exhibited at US and European motor shows.

Mr Lopez Valadez said the enlarged Puebla plant would turn out 120,000 New Beetles in its first year.

The car will be marketed in the US, Canada and Mexico, partners in the North American Free Trade Agreement, and in Europe and Japan.

Export drive could help poor nations' development, says UN

By Frances Williams in Geneva

Developing countries can repeat the economic miracle of the east Asian "tigers", according to the United Nations Conference on Trade and Development.

Unctad's latest Trade and Development Report published today says the policies that produced rapid export-led growth in South Korea, Taiwan, Hong Kong and Singapore can be applied elsewhere, though for the strategy to succeed fully, the rich North must keep its markets open.

Many developing countries have scope to boost exports of labour-intensive manufactures, Unctad says. It estimates that, in the textile and clothing sector alone, poor countries could triple their exports to the North over the next 10 years if import quotas are phased out as planned under World Trade Organisation rules.

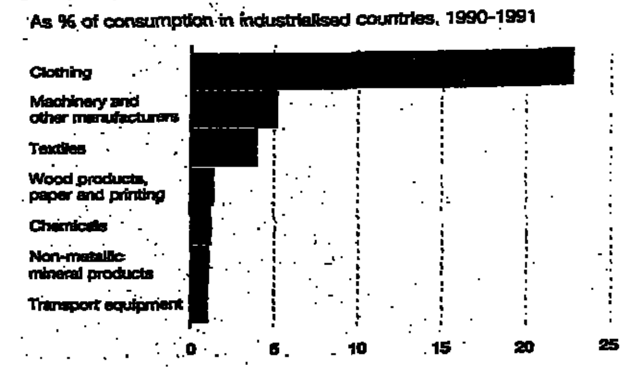
This would raise their market share in the North from one quarter today to about three-quarters, giving them an extra $175bn of exports a year.

However, the report says that if too many countries simultaneously expand exports of low-skill products, they will flood the market and weaken prices.

This will in turn reinforce a long-term downward trend in relative prices for low-skill manufactures.

Imports from developing countries

As % of consumption in industrialised countries, 1990-1991



Source: Unctad

World Output, 1991-1996 (Percentage change)

Region/country	1991	1992	1993	1994	1995a	1996b
World	0.6	1.4	1.1	2.8	2.4	2.4
Developed economies	0.9	1.6	0.7	2.8	2.0	1.9
United States	-1.0	2.7	2.3	3.5	2.0	2.2
Japan	4.1	1.1	0.1	0.5	0.9	2.1
European Union	1.5	1.0	-0.6	2.8	2.5	1.3
Germany	5.0	2.2	-1.2	2.9	1.9	0.5
France	0.8	1.2	-1.3	2.8	2.2	0.9
Italy	1.2	0.7	-1.2	2.2	3.0	1.5
United Kingdom	-2.0	-0.5	2.3	3.8	2.4	2.2
Eastern Europe c	-11.7	-13.4	-8.3	-10.1	-2.6	0.3
Developing countries	2.9	3.8	3.7	4.7	4.0	4.5
Latin America	3.5	2.5	3.4	4.9	0.7	2.4
Africa	1.9	0.7	0.1	2.6	2.8	3.1
Asia	5.8	4.6	5.1	6.3	6.1	6.0
China	8.4	14.3	14.0	11.6	10.2	9.0
World exports (volume)	4.9	4.5	3.1	8.9	8.0	7.3

Source: Unctad a estimate b forecast c including former Soviet republics

The report thus recommends setting up an international "marketing-cum-information agency" such as the Japanese External Trade Organisation to give developing countries early warning of impending market gluts.

Unctad acknowledges that a huge export drive by the South could create serious dislocations in the North, even though new markets would be opened up in developing countries for the North's more sophisticated manufactures, capital goods and services.

Over 10 years, developing-country penetration of northern markets could double, affecting over 12 per cent of manufacturing employment, Unctad estimates. If the North grew slowly and exports from the South expanded rapidly, penetration could exceed 20 per cent of northern markets for manufactures.

"With the depressed demand conditions and growing labour market problems which have characterised the North over the past 20 years, the scale of market penetration envisaged might trigger an intensification of protectionist pressures," the report says.

In analysing the lessons from the east Asian "miracle", Unctad argues that effective government intervention was crucial. "Markets alone cannot generate export-oriented industrialisation". Despite globalisation and stricter trade rules, developing countries still have room to pursue selective industrial policies, the report says.

● *Trade and Development Report 1996 (Sales No.E96.II.D.6). UN Sales Section, Palais des Nations, CH-1211 Geneva 10, fax +41 22 917 0027, $48.*

Selling US cars in Japan: more than a matter of trade policy

Selling any cars in Japan is a difficult business these days, writes **Michiyo Nakamoto** as talks on opening the market end

More than two years ago the pressures of trade friction with the US led Tokyo Nissan Auto Sales, Japan's largest Nissan dealer, to devote two of its outlets to selling Ford cars.

So far, Ford Tonichi, the subsidiary set up by Tokyo Nissan and the first Nissan-affiliated dealer to sell cars made by the US company, has sold just 400 vehicles and has piled up debts of about Y300m ($2.8m). "You need a lot of money and resolve," says Mr Mikio Kurokawa, an official of the company.

As US and Japanese trade negotiators conclude two days of meetings today to review progress of a bilateral accord on opening Japan's markets for foreign cars and car parts, dealers in Japan are more worried about their long-term survival than about a renewed flare-up of US-Japan trade tensions.

The US side has expressed unhappiness that the number of car dealers handling US cars has increased by just 107 against a self-set target of 200 by the end of this year.

While Japanese car dealers' strong relationships with Japanese carmakers is still a deterrent to handling US cars, as one Japanese dealer admitted yesterday, it is not the only one. Concern about the profitability of such a venture is as much a source of the dealers' hesitation.

Intense competition and the sluggish growth of the domestic car market over the past few years have made life increasingly difficult for Japanese car dealers, who have never been very profitable.

A study of 1,852 dealers by the Japan Automobile Dealers' Association unveiled last week, showed that sales per company fell 3.2 per cent in the year to March 1996.

"Selling cars alone is not profitable," says Mr Kurokawa. "I don't think there is any dealer in the Tokyo area that is making profits."

Japanese car makers have made up for the difficulty their dealers face by providing sales support and incentives, which have made dealers financially dependent on their suppliers. "It is questionable whether car dealers can survive without the incentives [provided by the carmakers]," says Mr Takaki Nakanishi, industry analyst at Merrill Lynch.

To win over Japanese dealers, foreign carmakers would need to convince them that selling their cars can be profitable. "Dealers want to know if we can provide them with a range of models and how much profits they can make," says Chrysler, one of the other big three US car groups.

For US carmakers with a limited track record in Japan, that is no simple task. "It's not like selling a Mercedes-Benz," says Mr Kurokawa. "Japanese brand consciousness still leans heavily towards the Europeans."

Most Japanese dealers know little about US cars and the companies that make them. The biggest problem General Motors has had in recruiting dealers to sell the Saturn, which will be launched in the Japanese market next spring, has been a lack of familiarity with the car, notes Mr Yasuo Maruta, a manager in the marketing division of Saturn. GM, which has recruited six companies so far, is looking to have 20 outlets by the launch.

"The main problem is that people do not know our products," adds Chrysler, which purchased an independent dealership last summer to boost its presence in Japan. "People are familiar with the Jeep, but don't know that Chrysler has other models to offer."

Japanese car imports

The disappointing performance of many US-made cars which have been launched recently in Japan amid much fanfare has not made the task of recruiting dealers any easier.

Since June, Chrysler has managed to sell only 605 units of the Neon, its sedan that was feared as a Japanese car "killer" because of its cost-competitiveness. The target is 4,000 units by the end of the year.

Even Toyota, which sells the GM-made Cavalier under its own name, has sold only 7,189 units of the car since January and looks set to miss its target of 20,000 for the year.

Furthermore, starting a car sales outlet is a big investment that does not usually deliver returns for many years. Tonichi Ford does not expect to make a profit until its sixth year, Mr Kurokawa says. And it will take much longer to wipe out its accumulated debts.

The dealer was able to use existing outlets provided by its parent but most dealers would have to invest between Y2bn and Y3bn to open an outlet. To make matters worse, unlike Japanese car companies, Ford does not provide any incentives, according to Tonichi.

Whether a Japanese company can take on foreign cars depends to a large extent on its financial strength, admits Mr Hiroo Tanabe, general manager of external affairs at Ford in Tokyo.

At the same time, US car makers are being selective about the dealers they choose, which makes the process of building up a network a time-consuming one.

"There are a lot of people that want to come into the imported car market because they think they can make a quick buck," Ford's Mr Tanabe explains. "But Ford doesn't want just any dealer, so we have had to reject many dealers interested in handling our cars."

There is, meanwhile, one development that could boost the prospects of US companies trying to recruit Japanese dealers.

The poor profitability of their dealers is putting a strain on Japanese carmakers, which spend a significant proportion of their profits supporting their dealers. When Japanese car makers decide they can no longer sustain that system, says an official at one car maker, the shake-out could provide an opportunity for US companies.

"Even without political pressure, the dealer-manufacturer relationship is falling apart," he says.

مكبرا من الاصل

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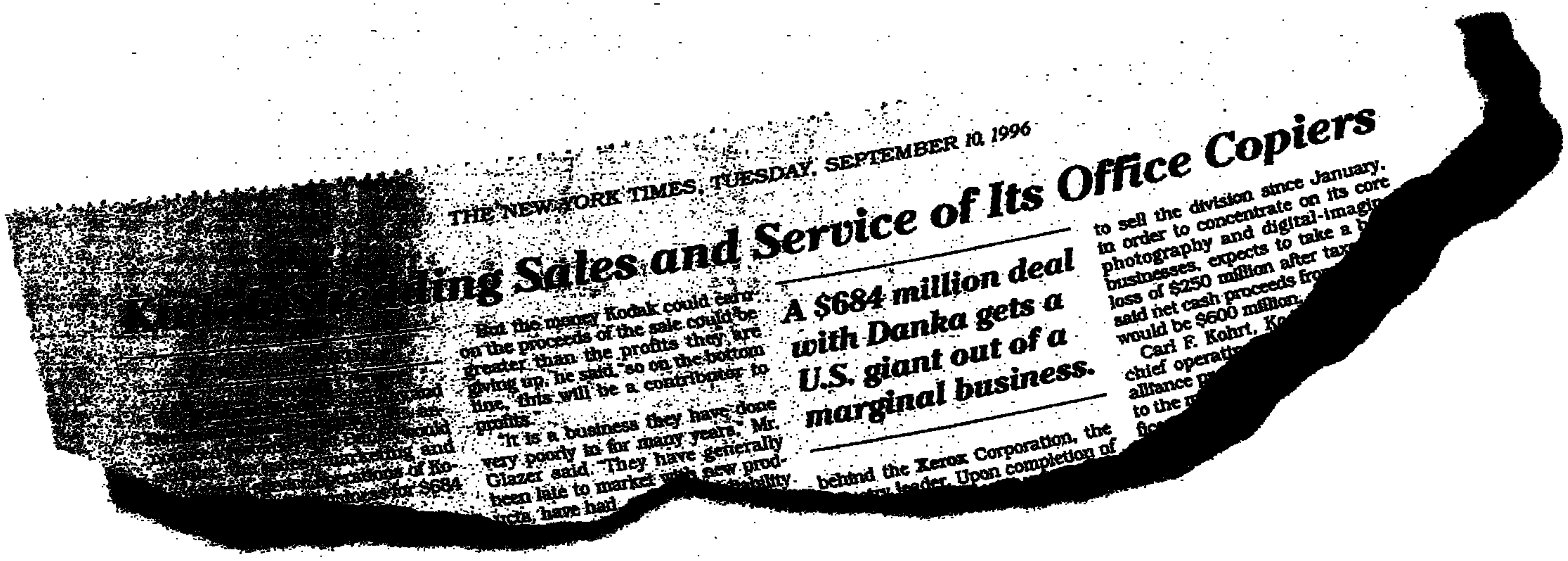

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NEWS: INTERNATIONAL

Frightened Kurds look to US for protection

By John Barham in Arbil, northern Iraq

The talks between US officials and Mr Massoud Barzani, the Kurdish leader allied to Iraq, due to take place in Ankara last night, brought a palpable sense of relief to Iraq's Kurdish north yesterday.

It was only two weeks ago that Mr Barzani and his Kurdistan Democratic Party (KDP) asked for Iraqi President Saddam Hussein's help to recapture the Kurdish city of Arbil from the rival Patriotic Union of Kurdistan (PUK). Following that, and despite US retaliation in southern Iraq, Mr Barzani has won virtual control over the Kurdish north.

Yesterday Mr Barzani arrived in Ankara for talks with Turkish leaders as well as Mr Robert Pelletreau, the US assistant secretary of state for Near Eastern affairs.

Few, if any, Kurds ever felt secure about Mr Barzani's deal with Mr Saddam. A shopkeeper in Sulaimaniya, the enclave's biggest city, said: "There will be peace in Kurdistan, but the United States will help Barzani, directly or indirectly."

Although fighting has died down and Iraqi government forces have withdrawn from the city, fear of Mr Saddam's Mukhabarat or intelligence services remains widespread.

There are no longer reports of abductions of Iraqi opposition members by the Mukhabarat, but Kurds now feel that walls have ears.

Few dare criticise Mr Barzani openly, but in private show contempt for him, calling him a "traitor" or "corrupt". Such apprehensions among Kurds are a main reason why Mr Barzani is trying to distance himself from Mr Saddam.

Even KDP officials are relieved Washington has so readily reopened communications with Mr Barzani. One party member close to him said: "We ask Mr Pelletreau that protection and international assistance for the Kurds continue. If we have that protection we will not turn to anyone else."

Mr Barzani blamed US indifference to rising tensions with the PUK for driving him into the arms of Mr Saddam. But he has also been claiming that he has no intention of being tied to the Iraqi regime.

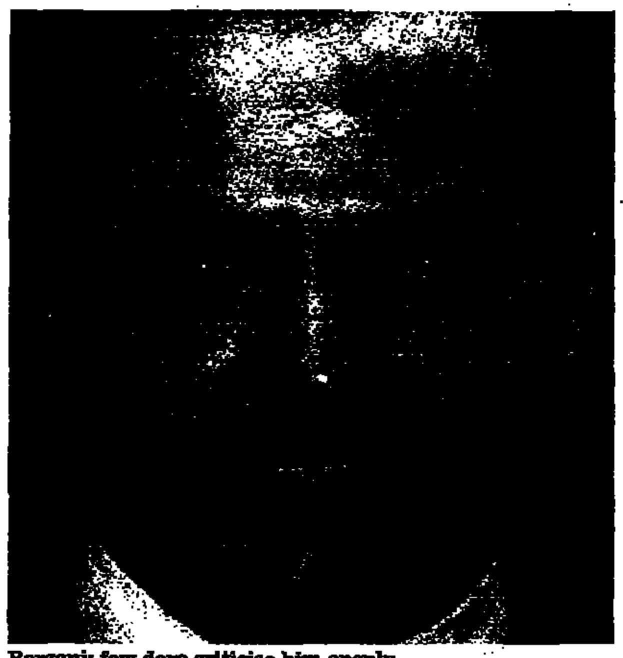
Mr Barzani is in a vulnerable position and his move risks provoking Iraqi retaliation. Iraqi media yesterday warned Mr Barzani against meeting with the US.

While admitting that Mr Barzani will be unable to cut his ties with Baghdad, US officials said their meeting with Mr Barzani had the short term objective of maintaining some US foothold on the ground by securing KDP help to protect people working for US agencies in northern Iraq and keeping the US aid organisations operating. In the longer term, the aim is to attempt a reconciliation between the two rival Kurdish factions.

As to Mr Barzani, aides said he may also want the US to return its token – but psychologically very important – military presence in northern Iraq and resume aid programmes. Residents' morale collapsed with the sudden departure of the US-led military co-ordination centre from the border town of Zakho and termination of the US government's aid operations.

Mr Saddam has exempted those he considers to be "spying for foreigners" from a general amnesty he decreed for Kurds, leaving local employees of aid agencies terrified that they might face execution. Their fear has paralysed the work of the agencies.

"We think Kurdistan is not safe," said a doctor. "Saddam will take it militarily or slowly, in co-ordination with a Kurdish party." Hollow-eyed with fatigue and fear, he said he would flee the moment the opportunity arose.



Barzani: few dare criticise him openly

Iran is anxious to contain Gulf conflict

In Tehran's view, Saddam's Iraq is a safer bet than an ungovernable Iraq, writes **Kasra Naji**

Posters have been put up in the streets of Tehran to mark what has been officially termed Holy Defence Week to commemorate the anniversary of the start of the Iran-Iraq war 16 years ago.

The occasion has provided Iran's leaders with an opportunity to call on the armed forces for extra vigilance at a time when the situation in northern Iraq remains volatile and the US continues with its military build-up in Kuwait and elsewhere in the region.

Officials say Iran is determined not to get sucked into the crisis. To ensure this, Iran has been strengthening its defences along the border with Iraqi Kurdistan. At the same time it has begun a new round of diplomatic efforts to prevent any escalation.

The immediate concern is the possibility that the fighting between the two main rival Kurdish groups and involving Iraqi troops might spill over into Iran. Already the forces of the Patriotic Union of Kurdistan are using mountain passes on the border to shift troops. And in the past few days there have been at least two clashes between forces of the PUK and the Kurdistan Democratic party near the Iranian border.

There is also the possibility that Iranian opposition forces – the Iranian KDP and the Mujahideen – might use the new chaos in the border areas to attack Iranian villages and towns with the help of Iraqi forces.

Iran is also anxious about a Turkish plan to establish a buffer zone in northern Iraq which Turkey's own Kurdish rebels use as a base. "Iran condemns the plan to establish a buffer zone as it contravenes Iraq's territorial integrity," said a Tehran radio commentary which reflects the view of the Iranian foreign ministry. It called for joint action by Iran, Turkey and Syria – the three countries which border Iraqi Kurdistan – to contain the conflict.

Iran imagines it is 'the number one enemy of the number one state' – diplomat

Mr Ali Akbar Velayati, the foreign minister, held talks with Turkish leaders on Sunday, to explain Iran's position. Mr Mahmoud Va'ezi, his deputy, has been despatched to Moscow to enlist Russian support. And Iran has also been in close consultation with Syria to strengthen its hand in dealing with Turkey.

Iranian officials say that for Turkey to establish a buffer zone would be the first step towards the disintegration of Iraq. But they admit that there is little that Iran could do if Turkey went ahead with such a plan.

Iran prefers a strong central government in Baghdad – albeit in the form of an unpredictable former enemy, President Saddam Hussein – to an Afghanistan-type situation in which several groups claim power and no one is in control.

Meanwhile, Iran has always viewed any US military build-up in the region with suspicion. Iranian officials believe that the so-called "dual containment" strategy of the US in the region to keep Iran and Iraq under pressure is geared more towards Iran than Iraq. They believe that the US has been preparing itself and international public opinion for an eventual military strike against Iran.

One diplomat in Tehran said Iran had a misplaced sense of self-importance as it saw itself as "the number one enemy of the number one state". Diplomats say the US knows full well that any military action against Iran could help generate support among its population for their government.

For the moment, while calling on the armed forces to be more vigilant, Iran seems to be no more than a passive observer of events, and that, according to one observer in Tehran, is no bad thing. "At least they are not doing something foolish," he said.

Meanwhile, many ordinary people seem concerned about the effects the crisis might have on food prices.

Mordechai approves new West Bank homes

By Judy Dempsey in Jerusalem

Israel's defence ministry yesterday approved plans to build a further 1,800 homes in a Jewish settlement in the West Bank. The decision could be aimed at strengthening Israel's position in a final settlement with the Palestinians, Israeli officials said.

The decision by Mr Yitzhak Mordechai, the defence minister, confirms the government's intentions to step up the expansion of existing settlements. However, it is still unclear if the Likud government intends to create new ones. The former Labour government had allowed the extensive expansion of existing settlements but had halted new ones in a bid to push forward the peace process.

But since the election of the rightwing Likud government last May, Mr Benjamin Netanyahu, the prime minister, appears determined to allow new homes to be built despite sharp criticism from Israeli peace groups and the Palestinians.

Yesterday, they argued the move would have a negative psychological effect on the peace process which has virtually come to a standstill since Likud came to power.

"Of course we will be criticised about this plan," a government spokesman said. "But there is nothing in the [Israeli-Palestinian] interim agreement and there is nothing written down which states we cannot continue to build new homes within the existing settlement boundaries."

The defence ministry said it was simply unfreezing plans by the previous government. The latest approval is for Matityahu, an ultra-orthodox settlement of 2,400 people. It is in the West Bank, close to Israel's pre-1967 border.

A government official insisted the homes were necessary, especially for the ultra-orthodox Jews "because of natural reasons. They have large families. They need room." But Likud is beholden to meeting its pledges on expanding the existing settlements to the three ultra-orthodox parties in the coalition.

He went further by suggesting that both the Israelis and the Palestinians were trying to strengthen their negotiating position in the event of any final agreement even though many of the commitments in the 1995 interim agreement have yet to be fulfilled.

The announcement of the approval took place hours before Mr Mordechai and Mr Yassir Arafat, the Palestinian Authority president, were due to hold talks in Gaza. They were expected to focus on security issues and the redeployment of Israeli troops from the West Bank town of Hebron.

The redeployment from Hebron is long overdue. But so far Mr Netanyahu has given neither a commitment nor a timetable for their withdrawal, an issue which Mr Dennis Ross, the US special envoy, was due to raise with Mr Arafat in Gaza as well.

Lebanon curb on political broadcasting

By Sean Evers in Cairo

Lebanon yesterday banned broadcasts of political programmes and news by about 50 private television stations and 150 radio stations and ordered them to close by the end of November.

Political broadcasting is now restricted to four TV stations and three radio outlets controlled by the pro-government establishment, a move that risks serious protest by opposition groups.

The opposition and private media operators condemned the move, saying it restricted press freedom and concentrated the media in the hands of powerful political, sectarian and business leaders.

The government granted licences to four television stations – owned by Mr Rafiq al-Hariri, the Sunni Moslem prime minister, Mr Nabih Berri, the Shi'ite speaker of parliament and Hizbollah rival, the brother of the Greek Orthodox interior minister, Mr Michel Murr, and to LBCI, the former station of the now disbanded Maronite Christian Lebanese Forces militia, in which leading Christian businessmen have invested.

Eleven radio stations were licensed, but only three may air news and political programmes. These are owned by Mr Hariri, Mr Berri, and LBCI.

The clampdown on Lebanon's freewheeling media follows recent elections to parliament – tightly managed by Syria – which returned an overwhelmingly pro-Syrian majority grouped around two blocs loyal to Mr Hariri and Mr Berri.

Mr Paul Salem, director of the Lebanese Cenre for Policy Studies, said although there was a rational argument for re-organising the audio visual media industry, clear favouritism had been shown. "The end result is that now four or five politicians in the country monopolise the public and private sector," he said.

Most of the television and radio stations were set up amid the anarchy of the Lebanese civil war of 1975-90 as mouthpieces of the militias. In the aftermath of the war most stations became commercial operations and competed for a slice of the lucrative advertising market.

The broadcast media was the fastest growing economic sector in Lebanon, and the closure of large parts of it will put thousands of highly skilled young professionals out of work.

Mr Salem said: "Syria has successfully consolidated a friendly local power structure in Lebanon, having just won elections, and now they will control the media."

Action urged on water shortages

By Leyla Boulton, Environment Correspondent

The number of people living in water-stressed countries in Africa could rise from 300m to 1.1bn by 2025, says a report by a Washington-based think-tank which calls for greater action on the world's water shortages.

The report* by the Worldwatch Institute says that areas which face worsening water shortages should make more use of water-saving measures tried elsewhere.

It adds that policy-makers have yet to understand that new engineering projects such as dams will not be enough to solve water shortages, which could threaten countries' security and food supplies.

The report calls for:

● Removing subsidies and charging more realistic prices.

● Californian-style restructuring of tariffs to encourage conservation.

● Water trading, as practised in Chile, where farmers can sell water rights to water companies.

● A change in agricultural practices, including a switch to drip system irrigation which doubled the amount of land that could be irrigated in a Nepalese pilot project.

● Water-sharing agreements between nations.

It said projects could be aided by the involvement of third parties such as the World Bank, swaps of other assets such as energy, or land-crossing rights, joint management of water resources and attaching monetary values to disputed resources.

**Dividing the Waters: Food Security, Ecosystem Health, and the New Politics of Scarcity*

CONTRACTS & TENDERS

Car workers demand 7% pay increase

By Robert Taylor, Employment Editor

Workers at Rover, the UK vehicles subsidiary of BMW of Germany, yesterday demanded a pay rise of at least 7 per cent. The current average earnings increase in the UK is running at 3.75 per cent.

It is the first big challenge for Mr Walter Hasselkus, Rover's chief executive who arrived from Germany to take up his post a fortnight ago. The current two-year agreement ends on November 1.

The size of the pay claim reflects a determination by union negotiators to achieve wage increases that reward past productivity performance. In addition, the Rover workers want a cut in the basic working week from 37 hours to 35 hours to bring them more into line with the time worked by BMW's German staff.

The Transport and General Workers union national officer for the car industry, Mr Tony Woodley, said: "As union bargainers we must stop making apologies for demanding fair recompense for workers in return for real improvements they have made in their productivity. We see 7 per cent as the very minimum of what we need." The union represents about half the workforce. Demanding pay rises in line with inflation is no longer enough, particularly when corporate fat cats are enjoying earnings increases that average 12 per cent."

Mr Woodley said the unions believed Rover had secured impressive productivity improvements since 1992, although he acknowledged there had been a more modest achievement in recent months.

The claim points out that there has been a 43 per cent cut in the number of working hours needed to build each Rover model between 1992 and 1995.

The unions at Rover are also demanding three extra days holiday a year and improvements to the holiday bonus. They are seeking a 12-month agreement, although the current deal was for two years.

In November 1994 the pay talks at Rover proved difficult and the final 10.7 per cent pay rise over two years was only accepted narrowly by workers in a secret ballot.

Two other car companies in the UK – Jaguar and Peugeot – also face wage negotiations this autumn but current agreements at Ford and Vauxhall do not terminate until late 1997.

In a separate development, Ford Motor Company has reached agreement on a European works council for its employees across Europe.

Airport operator plans increased travel links

By Charles Batchelor, Transport Correspondent

BAA, the operator of London's Heathrow Airport, yesterday unveiled plans for links to the national rail network once a new London Underground rail terminal opens in 1998.

The company has begun talks with five train-operating companies with the aim of creating rail links to a wide range of destinations in London, to Gatwick Airport and the south coast and north to Birmingham and Manchester.

These proposals form part of a programme intended to encourage airline passengers to travel to the airport by public transport rather than by car; BAA wants to increase the public transport's share from 34 per cent to 50 per cent. This will form part of BAA's submission to the public inquiry now under way into plans for a fifth terminal at Heathrow.

Technical director, Mr Michael Maine, said: "We are doing more than anyone could have hoped for, or expected, to encourage public transport. This will not only benefit travellers to the airport but also London and the south-east generally."

BAA also hopes to create a bus and coach lane on the M4 motorway approach to the airport – the first time that such a lane has been established on a British motorway – and is in talks with the Highways Agency.

BAA has already announced plans to spend £500m ($750m) on rail improvements at the airport including £350m on the Heathrow Express link which will provide a 16-minute journey time to London Paddington station from June 1998. A further £70m will be spent on extending the Piccadilly Underground line to terminal five, if it is built, while £80m would go on a main line link and station at terminal five.

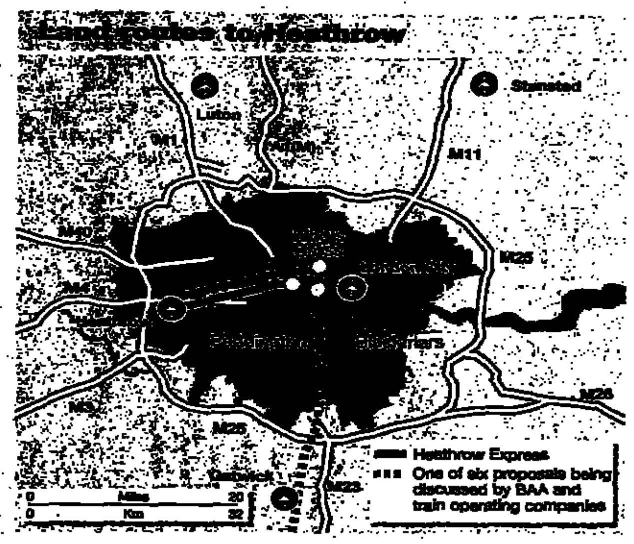
● The British government will today announce plans to improve the way it provides subsidies to encourage freight to go by rail and to increase the sums it provides for long-distance freight journeys.

This follows a critical National Audit Office report last month which accused officials of setting unrealistically tight conditions for making the grants and sustained pressure from rail freight operators for greater flexibility.

Mr John Watts, rail minister, is to announce an increase in the allowance given to hauliers who switch traffic from motorways to rail from 5 pence a mile to 20 pence a mile.

He will also unveil proposals to streamline application procedures for the rail freight grant to improve take-up and provide speedier assistance for more ventures.

"These proposals are very welcome," said Mr Chris Nichols, director of the Rail Freight Group, which represents and advises freight operators. "We had been arguing for 25p per mile but this increase will help to tip the balance in a number of cases we are currently looking at. Long-distance shipments which at present go by motorway are the prime target for rail operators."



BBC to enter Internet market

By Alan Cane and Raymond Snoddy in London

The BBC plans to launch a service on the Internet which could promote greater acceptance of the global computer network in the same way that the BBC Computer popularised computing in the 1980s.

Contracts have been signed between BBC Worldwide, the public broadcaster's commercial arm, and the multimedia division of ICL, the UK computer group owned by Fujitsu of Japan, to design and run the service.

BBC Worldwide will announce the service within the next two weeks. It will feature news, weather and travel information as well as educational and entertainment material. It is expected to go live in the early part of 1997.

The BBC confirmed last night it was in discussions with ICL and other companies and would make an announcement shortly. It is understood that ICL has won the contract in competition with Microsoft of the US, the world's largest software company, which has launched an Internet television service in a joint venture with NBC.

The deal with ICL is part of a much broader BBC strategy to exploit its programme library and expertise in a wide variety of digital forms – ranging from online to digital satellite and digital terrestrial broadcasting. The corporation is also in talks with Flextech, the television channel provider controlled by Telecommunications Inc of Denver. If the deal is agreed the two companies will launch at least six satellite television channels together.

ICL will not be paid a fee for its services but will take a percentage of the subscriptions paid for the service.

The BBC is providing programming and content while ICL has designed the system and is taking responsibility for the technical specification.

The main selling points will be speed – compared with the frequent delays experienced by users – and ease of use. There will also be a "morality button" to reassure parents who might fear their children could use the service to view pornography and other unsuitable material available on the Internet.

ICL declined to comment last night.

Airline sheds 5,000 jobs to save $1.5bn

By Michael Skapinker, Aerospace Correspondent

British Airways is to offer voluntary redundancy to 5,000 employees – and will hire the same number of recruits – as part of plans to save £1bn ($1.56bn) over three years.

Mr Robert Ayling, BA's chief executive, said yesterday that several areas of the company, including baggage handling and ticket processing, had been told they would have to cut costs to the level achieved by outside suppliers. Failure to do so would mean their work being put out to contract. But the company did not announce any immediate plans to contract out work.

Mr Ayling told staff the cost-cutting plan was essential if BA was to maintain its lead in the international airline industry.

He said: "Today marks the start of the next stage on our long journey from privatisation. In 10 years we have transformed ourselves into an airline which has few equals. To be a success in the next century, we have to bear in mind the transformation we achieved in the past, and then do it all over again."

Mr Ayling said the redundancy programme would start in November and last for 18 months. Voluntary severance or early retirement would be offered only to UK employees, who account for 46,000 of the airline's 55,300 staff. He said BA hoped to avoid compulsory redundancies, although these could not be ruled out.

The recruits will be taken on over the next three years, so that by the end of the decade the airline will have around the same number of employees as it has today.

Mr Ayling said the new staff would have the skills BA needed to succeed in the future, including languages.

Mr Ayling said BA planned to reduce advertising and promotions expenditure. It would also improve flight punctuality and share more of its aircraft with Qantas of Australia, in which it has a minority stake, and American Airlines. BA and American are awaiting US and UK government approval for their alliance, announced in June.

Mr Ayling said BA planned to develop interactive on-board entertainment allowing passengers to order goods, gamble or watch "pay-per-view" films and television programmes.

BA is considering inviting investors to take a minority stake in its engineering and maintenance system.

Smooth take-off, Page 18
Lex, Page 14

Recovery is 'most balanced in Europe'

By Graham Bowley, Economics Staff

The present economic recovery represented "the most balanced and sustainable economic growth of any major European economy", the UK Treasury said yesterday.

Figures from the Office for National Statistics showed that sales in city shopping streets were growing at their fastest rate since 1988, making it increasingly unlikely that Mr Kenneth Clarke, the chancellor of the exchequer, would be able to cut interest rates again without alarming the financial markets.

The ONS said retail sales rose a seasonally adjusted 1 per cent last month and were 4.4 per cent higher than in August last year.

The acceleration in retail activity reawakened memories of the late 1980s consumer boom and provoked a strong reaction in financial markets as investors feared current growth rates were unsustainable and would lead to rising inflation.

UK government bond and share prices fell back on fears of rising interest rates, while the pound rose against the dollar.

The financial futures markets concluded that interest rates were likely to be higher by Christmas.

The figures, which were much stronger than City economists expected, coincided with the news that Mr Eddie George, governor of the Bank of England (the UK central bank), pushed strongly for rates to rise to 6 per cent from the present 5.75 per cent at his monthly monetary meeting with Mr Clarke in July.

The minutes of the meeting, published yesterday, showed that Mr George expressed concern that economic growth, especially consumer spending, was stoking inflationary pressures.

However, Mr Clarke said he was prepared to raise rates early if inflationary pressures picked up, but he "saw no evidence yet of those pressures".

In the three months to August, retail sales volumes were 1.6 per cent higher than in the previous three months, the strongest growth since August 1988.

Sales of clothing, footwear and household goods appear to be driving most of the increase. Sales of textiles, clothing and footwear rose 5.6 per cent in the latest three months compared with the previous three months, the strongest growth for a decade.

Household goods, especially electrical goods such as televisions, are benefiting from the present recovery in the housing market. Clothing sales have been boosted by new autumn fashions and heavy discounting as prices have fallen below last year's levels.

Overall, sales by non-food stores rose 2 per cent between July and August. Sales by food stores were flat.

There were widespread declines in retailers' share prices, suggesting investors believe the high rates of growth are unsustainable.

Major's morals, Page 13

UK NEWS DIGEST

Army displays tank fire-power

The British Army yesterday demonstrated its latest generation of main battle tanks to its European counterparts as part of international arms control agreements. A group of 35 officers from 20 nations watched the 65-ton Challenger II tank, made by Vickers Defence Systems, destroy six tank targets in 26 seconds at ranges of up 1,500 metres in a deafening display of fire-power. The display was called to demonstrate the army's new tank under the Vienna Agreement. Challenger II, capable of speeds up to 56 kmh, also destroyed targets on the move on the Lulworth ranges in Dorset.

The tank, which was first delivered to the army two years ago, has been criticised for poor reliability. However, in recent trials, the tank demonstrated dramatically improved levels of performance. A test in Saudi Arabia in the 50 deg C heat of August as part of an effort to win export orders also went well.

Vickers is in contract negotiations with the Ministry of Defence about when the army will accept the tank into full service. *Bernard Gray, Lulworth Camp, Dorset*

■ BREWING INDUSTRY

Minister backs pub ties

The government would oppose any change in laws of pub ownership which would disadvantage British brewers compared with their European Union counterparts, Mr John Taylor, minister for corporate and consumer affairs, said yesterday. He met representatives from brewers and pub owners to help the government prepare for negotiations with the EU on the issue.

The EU is reviewing its exemption from competition policy of European brewers' ownership ties and supply agreements with pubs. The current exemption expires in December, 1997, but the UK industry believes the European Commission will renew it.

Brewery ownership of pubs is the main form of tie in the UK while financial support by brewers of pub owners is typical in Germany, Italy and some other European countries. The EU objected recently to one British provision which allowed tenants tied to a brewer to serve a "guest ale" from another brewer. It said the law discriminated against lagers. *Roderick Oram*

■ LIMITED LIABILITY

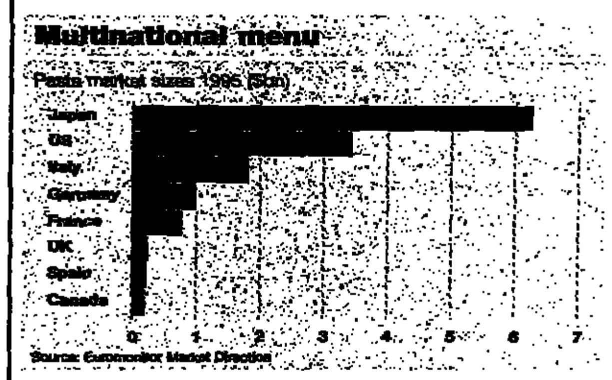
Jersey legislation to be probed

The Jersey parliament is likely to set up an independent inquiry into the way in which a law allowing the big accountancy firms to register on the island has been handled by politicians and officials.

Yesterday Senator Pierre Horsfall, president of the island's finance and economics committee, said he would ask parliament to set up the inquiry to stop "gossip and innuendo" about the new law. The legislation, which would allow big firms to register on Jersey and establish limited liability partnerships, has caused controversy with critics saying it was "fast-tracked".

There was also concern from some members of the parliament over the role of the "big six" firm, Price Waterhouse, in helping to draft the legislation. The firm provided free legal advice to help Jersey legislators.

The legislation goes before the island's parliament, the States, for its third and final reading next Tuesday and if passed is likely to be used by at least two of the six firms – Price Waterhouse and Ernst & Young. *Jim Kelly, Jersey*



Appetite for pasta up sharply

The British are becoming avid pasta eaters, making the UK the second fastest growing market in the world, after a 53 per cent rise since 1991. Euromonitor, the market research consultancy has predicted that sales will rise by 41 per cent to £220m ($343.2m) by the end of the century. UK consumption is still far behind that in Italy – but the biggest consumers in the world are Americans and Japanese. The figures include sales of noodles. Sales of fresh pasta in the UK grew 90 per cent between 1991 and 1995 to £48m. Dried pasta sales stood at £111m in 1995. Makers of dried products are trying to stimulate sales with flavoured, shaped, patterned, quick cook and wholewheat versions. As the UK market grows, local manufacture particularly of fresh pastas is increasing and displacing imports. Pasta Reale is the brand leader in the fresh sector with a 29 per cent market share and Nestlé's Buitoni leads the dry sector with 12 per cent. *Roderick Oram*

Ostrich farm funds take flight

Nearly a third of the birds sold to investors 'never existed'

Nearly a third of the 3,700 ostriches sold to investors by Ostrich Farming Corporation did not exist, and at least 400 of the others have died, according to the company's joint liquidator.

Mr Adrian Stanway, of accountants Coopers & Lybrand, also said that of nearly £22m ($34.32m) raised by OFC from 2,700 investors, no more than £5m could be explained by the purchase and upkeep of birds.

The collapse of OFC, closed down in April on public interest grounds by the Department of Trade and Industry, has left the liquidators with two linked problems – how to care for nearly 2,500 ostriches on Belgian farms and how to maximise the return to creditors, including the owners of individual birds.

The owners paid up to £17,700 for birds whose market value is now estimated to be £400 at most. Having invested on the promise of annual returns exceeding 50 per cent, they now realise that the hope of retrieving any of their outlay will require more money.

General Sir Robert Pascoe, of the Ostrich Owners Protection Group, said: "I know of a secretary who borrowed money from her boss to invest. I know of someone who mortgaged his house."

OFC sold 3,700 ostriches to investors, but only 1,876 adult birds and 620 chicks had been identified in the records held by Mr Eddy Nachtergaele, the Belgian farmer who reared them, Mr Stanway said.

The "ostriches" OFC allocated to other investors were only the numbers of microchips which had not yet been implanted into specific birds' necks for identification purposes.

The actual number of live birds will not be known until they are counted in November, after the breeding season ends. At least 400 have died, however, after a mix-up over feed. Mr Nachtergaele has agreed to replace these and any others who have died, under an agreement reached after Mr Stanway's appointment in July.

The parallel effort to trace and recover the missing money is being conducted by Coopers' forensic accountants. In the High Court in London, the liquidators have already won court orders freezing the worldwide assets of two companies and four men: US-based Wallstreet LLC and Wallstreet Corporation (UK) – which, they claim, received "excessive payments" by acting as intermediaries in the ostrich sales; three OFC directors, Mr Jack Bennett, Mr Brian Ketchell and Mr Allan Walker; and a fourth man, Mr Kevin Jones, who allegedly received "large sums" through Wallstreet LLC.

The court orders, however, deal with only £3.5m of the estimated £17m which cannot be accounted for by payments to Mr Nachtergaele's Belgian companies which supplied the ostriches and agreed to take care of them for investors.

Coopers has identified other transactions it considers suspicious, but is weighing potential benefit against the chance of success.

As for the ostriches themselves, Mr Stanway's team were able to break a legal impasse which had developed between Mr Nachtergaele and the Official Receiver, who had stopped payments to the Belgian farmer for the OFC ostriches' livery – food, accommodation and care.

In return for the liquidators' paying Mr Nachtergaele £300,000 in arrears, he agreed to withdraw legal actions for non-payment in the Belgian courts. The money will be recouped from owners, even those whose contracts with OFC included livery.

Mr Stanway has given owners three choices:

● To leave their ostriches with Mr Nachtergaele, paying a livery charge of £637 per bird until the end of 1996, (including a £300 contingency charge);

● To remove their ostriches, at an estimated cost of £600.

● To sell or abandon their birds.

So far, most are retaining hope. Some 1,700 have signalled their intention to support the Ostrich Owners Protection Group, whose intention is to form a mutual company to own the birds and keep them on Mr Nachtergaele's farm.

Clay Harris

ALL THAT GLITTERS: The Fall of Barings

Disastrous myth of Customer X

After the Barings collapse, senior managers believed they had been victims of a conspiracy between Nick Leeson and an outside speculator. In fact, there was no such speculator, and no plot. In today's extract from their book, FT reporters John Gapper and Nicholas Denton reveal how Leeson used his brief success in attracting a big client to cover up his devastating losses

As Ron Baker urged Barings traders on to greater efforts, Leeson was sitting in the hotel bar drinking Bloody Marys

In the New Year of 1994, Leeson paid a visit to the Raffles Hotel in Singapore. He had been invited to meet for the first time one of the high rollers of global trading, Philippe Bonnefoy. Bonnefoy was an archetypal hedge fund trader. In his early thirties, smartly-dressed and quiet, he handled the investment of billions of dollars.

Bonnefoy worked with an Austrian financier called Wolfgang Flottl. They had been together at Kidder Peabody in New York. The two men left when Flottl set up a hedge fund called Ross Capital in 1987. Ross Capital's first use for the $500m entrusted to it by wealthy private investors was to invest in US takeovers and bond arbitrage.

Bonnefoy, who ran an offshoot of Ross Capital called European Bank and Trust from Nassau in the Bahamas, had come to Singapore to find brokers to take orders on Simex. He was considering betting on a rise in the Nikkei 225 index, the main Japanese share index. Futures and options contracts based on the index were traded on Simex.

On the afternoon of February 3, Bonnefoy sat in his suite at the Raffles, and received half-hour visits from brokers. One was Leeson. Bonnefoy was not particularly struck by him. "If I need something, I'll be in touch," Bonnefoy said. On February 16, he put his first trade through Leeson. He bought a few call options, giving him the right to buy futures at a profit if the Japanese market rose.

It was a small order, because Bonnefoy was testing several brokers. It was easy enough for Leeson to get him the best price, since he had Account 88888 to take losses. Shortly after that, Leeson went away on holiday. Before he went, Leeson rang a Barings options trader called Adrian Brindle in Osaka, to ask him to help if Bonnefoy wanted options while he was away.

Option trading was an arcane science in which Leeson was officially barred from dabbling. The price of options – which give their holder the right but not an obligation to buy an asset at a set price some time in the future – can only be calculated using mathematical models. Leeson was allowed to buy and sell futures for Barings, but was only supposed to broke options for the bank's customers.

In fact, Leeson had sold options for Account 88888, and thus for Barings itself, since September 1992. He had done it to raise millions of pounds to cover the hole in the balance sheet dug by mistakes and the subsidies he was giving to customers. The seller of an option receives cash, in return for taking the risk of losing money if the market moves in favour of the option holder.

For about 18 months, Leeson had been selling pairs of options called "straddles". These brought him a lot of premium – the cash handed over initially by the buyer of an option – because they involved more than one option. However, they were doubly risky because a holder of a straddle gained if the market moved up *or* down. If the Nikkei did not remain steady, Leeson would lose money.

Leeson told Brindle that he had a highly confidential customer called Philippe. Brindle did not catch the second name clearly. It sounded French. The call never came, but Brindle tucked the information away in his head. In mid-March, Bonnefoy started making large orders for Nikkei 225 index call options, based on a market level of 20,000.

Leeson's own selling of straddles was accelerating as the losses in the five eights account escalated. By the spring of 1994, he was ringing the Tokyo office, offering to sell straddles to whoever wanted them. He was desperate to sell, and did not care much about price. He always offered Barings' customers options one or two points cheaper than the price implied by market volatility.

Leeson was still offering very good prices for rolls – combinations of futures bought by traders who had to roll over their positions each quarter. The largest buyer through Barings in the run-up to the expiry of March 1994 futures hour became Ross Capital. It bought 500 rolls through the Tokyo sales desk, following up with larger orders. In the end, it bought 5,000 rolls for March 1994.

This was about half of the 10,000 rolls that Leeson sold for March. Leeson was still offering the rolls at about Y10,000 (£65) cheaper than the standard market price each, although customers including Ross had no means of knowing how he did it. In effect, Leeson handed Ross Capital and others a total of about £650,000 of Barings' money from the five eights account, without any of them realising.

As this happened, a shift was occurring in how derivatives operations at Barings were managed. Leeson had been sent to Singapore in July 1992 mainly to execute trades at Simex on behalf of Barings' customers. This meant he traded for the futures and options sales desk in Tokyo, run by a 39-year-old American called Mike Killian. Since Leeson ran the Baring Futures back office, he also reported to Simon Jones, the regional operations manager in Singapore.

But to encourage London to send him the cash to meet his losses, Leeson had been creating fictitious profits through his own form of trading, where he claimed to be exploiting minute price differences between the prices quoted for the same contract on the Osaka and Simex exchanges. The manufactured profits had drawn the attention of Ron Baker, who in late 1993 had taken charge of Barings' derivatives trading.

Baker had been briefed by Fernando Gueler, the bank's chief derivatives trader in Tokyo, on the remarkable contribution being made to the trading profits by Leeson. Mary Walz, a 33-year-old manager whom he had recruited from the US bank Bankers Trust to take charge of equity derivatives, was asked to investigate. She was taken aback by what she discovered.

Walz found that Leeson had in effect been making 60 per cent of the profits declared by Brindle in Osaka because he supplied futures and options at such good prices. Walz, who was having trouble asserting her authority in London, was irritated at not having been told this before. "I don't really know what game is being played here, and I don't really care," she wrote to Baker in a memorandum on March 30.

Baker was worried by the idea that he was not in charge of the man who appeared to be making a large part of the profits of his division. "My most profitable trader doesn't work for me," he complained to Peter Norris, chief executive of investment banking. With Norris's approval, Baker took a first step towards getting his hands on Leeson by giving him a trading limit in Japanese Government Bonds (JGBs).

Since this would give him even greater access to cash from London, Leeson had every motivation to make switching in JGBs appear to be profitable. He did not hold back. On the first day of his JGB switching, Leeson crossed $1m of profits into the Japanese options trading book. One of Barings' derivatives traders in Tokyo was so excited that he danced a little jig on the Tokyo trading floor. It seemed there was no limit to Leeson's talent for making money.

The reality was appallingly at odds with the illusion. In May, the five eights account lost Y7.4bn (£47m), the largest amount in its 23-month existence. In a single month, Leeson lost the equivalent of the entire first quarter operating profits of Barings. He also started to lose his best customer. In May, Bonnefoy started to sell the options he had bought as funds were withdrawn from Ross Capital. Bonnefoy made his last trade with Leeson on June 27.

In mid-May, Baker flew to Singapore to find out more about how Leeson operated there. Baker was impressed by the obvious respect in which Leeson was held at the Simex exchange. That night, over dinner, Leeson explained his switching. It sounded as if he had cornered Simex in a remarkable way. Customers preferred to deal on Simex because margin calls and charges were lower. But Osaka was a bigger and more liquid market, where you could often get a better price for a big futures order.

Baring Futures would fill the order from a Simex house account, and then match its short with an equal and opposite long in Osaka. The customer gained the lower costs of Simex, while Barings gained from the better price on Osaka. It would pass on some of the price improvement to the customer, for which it was now being rewarded with a special commission. It could keep the rest itself.

This explanation was largely nonsense. Yet Baker was convinced. This was partly because Leeson was an exceptionally fluent liar. He had spent nearly two years fooling people, and his patter had improved with practice. Another thing in his favour was that Baker had little experience of managing derivatives traded on exchanges. Leeson had found a good environment in which to commit a fraud.

Baring Futures was now the dominant broker on Simex, and Leeson was king of the exchange. He had set out as just another order filler, but within two years he had bought himself enormous power, using Barings' money. His profits might be largely fabricated, but they looked extremely good to the outside world.

Leeson had taken to guzzling lots of chocolates on the trading floor during the day, presents from local traders anxious to gain favour. He was now much fatter, and the other traders used to call him Fat Boy. He had started out shyly, but now he swaggered on to the trading floor, threatening to cut out any local traders who displeased him. If anybody incurred his wrath, Leeson would buy a cream puff cake from the Delifrance café downstairs, and slap it into the miscreant's face.

> *"Information arbitrage is our business. If you don't know what an information curve is, then find out! Position yourself in an information curve! Dominate the curve!"*
>
> Ron Baker

Outside the exchange, Leeson mostly lived quietly – though he had a coarser streak, which was to get him into trouble. One night he went for a drink with a sales representative called Aloysious Chhze, employed by Reuters. They were getting drunk in a bar, when they saw some women looking through the door, and decided to shock them by turning round, bending over, and baring their bottoms.

Leeson was arrested, charged and fined 200 Singapore dollars. When Norris heard of it through Baker, he felt he had to tell the executive committee of Barings, chaired by Peter Baring. It was the first time Leeson had come to the committee's attention. "It is slightly embarrassing, but one of our traders got drunk the other night, and pulled a moon," said Norris. There was a startled silence.

"What did you say?" Peter Baring finally inquired.

Others in the room started laughing. Then Norris admitted that it was serious, because Leeson had been charged and fined. "Well, maybe we should sack him. What does he do?" said John Bolsover, chief executive of Baring Asset Management.

Norris said that sacking him would be awkward, because he contributed a lot to profits in Singapore. Bolsover was not satisfied. "Whoever he is, he is an ambassador for Barings, and if he did that in Singapore, how bright can he be?" he said. The discussion petered out with no decision being taken on the errant trader. Leeson had survived scrutiny at the hands of Peter Baring.

By the autumn, Leeson was again facing problems in five eights. The Japanese market was once again veering downwards after a rally in June, when it reached 21,500. Leeson had sold Y8.1bn (£52m) of straddles at the peak of the market, which were losing money rapidly as the index fell below 20,000.

His straddles now stretched for a year into the future. For him to keep the option premium, the Nikkei had to be incredibly stable. What was known as Nikkei volatility – the width of the band within which the Nikkei traded – had to remain below 10 per cent for a whole year. Any analyst of modern Japan would have known that was absurd. Japan had the developed world's most volatile stock market.

The Nikkei options market was starting to buzz with rumours about what Baring Futures was doing. It was never completely possible to tell whether a broker like Barings was dealing for a customer or itself, but in this case it seemed plain that it had to be a customer. Barings would never take such a risk. This view suited Leeson, who kept encouraging rumours about his mysterious "customer".

Tokyo traders had by now dubbed Leeson's mystery buyer Customer X. Anybody with an option pricing model, or a bit of common sense, could see Customer X must fail. Apart from anything else, Customer X was attempting to corner volatility in the wrong direction. It was just not possible for volatility to fall to zero, with the index closing day after day at the same level.

Yet however compelling the logic, investment banks could not find many takers for this view as November wore on. JP Morgan failed to entice any big customers with a research note arguing that they should buy options that constituted a bet on high volatility. As Leeson sold more and more straddles, Nikkei volatility fell below 10 per cent and kept falling. Leeson's accidental squeeze was starting to hurt.

Other traders were now desperate to discover who Customer X was. Gueler was taken out to lunch by a rival trader who tried to find out. "I could tell you, but I would have to kill you afterwards," Gueler joked. Giles Scott, one of Baring's derivatives salesmen in Hong Kong, was not put off easily. Scott, who affected a mid-Atlantic drawl although British-born, reasoned that Customer X might also want to buy derivatives based on the Hang Seng index in Hong Kong.

Scott rang Leeson to sound him out. "Is that Big Balls Nick?" Scott inquired, "Some of my clients have been commenting on the size of your gonads."

Leeson laughed amiably.

"Listen, you've got to tell me who this customer is," Scott said.

"I'm not supposed to say," Leeson replied. He talked obliquely of Philippe. He only met Mr X in hotels, and when he rang his office, the call would be passed through several exchanges.

"You've got to get him to give me a call. It's a must," Scott insisted.

"I'll try, but don't hold your breath," Leeson said.

Leeson's attempts to cover up the deepening hole in Account 88888 drove him on to manufacture ever greater profits through his switching, and in subsidies to other Barings traders. By November, equity derivatives trading had made an apparent profit of £40m. In fact, most of this "profit" had in effect been transferred by Leeson straight out of Account 88888.

Yet the financial products group – the derivatives trading division run by Baker – was becoming excited by its apparent success. There was an atmosphere of sheer exhilaration among the derivatives traders – known as "rocket scientists" because of their mathematics backgrounds – at the seam of profits that Leeson appeared to have struck.

Apart from the pleasure of being part of a successful group within Barings, Leeson's talents meant they stood to gain far greater annual bonuses at the year-end. Leeson himself would be rewarded handsomely. Baker was becoming his undisputed boss, since Killian's derivatives sales operation was to be put under Baker's control from the start of 1995. In December 1994, Baker told Leeson that he would be getting a bonus of £350,000, nearly three times the £135,000 he had received in 1994.

The year closed with a weekend meeting organised in New York by Baker for all the 120 staff working for his financial products group. Such "offsite" meetings had been introduced by Baker to bond his disparate group of traders, and urge them on to greater efforts. Leeson was being appointed regional manager of derivatives in Singapore, and was joining a 19-person management committee.

The committee met for dinner on the Friday night. Afterwards, Leeson stayed up drinking with colleagues till 4am, while his wife Lisa slept back at the hotel. He had hardly sobered up by the next morning, and the centrepiece of the New York offsite: a day of talks and discussion on Baker's trading group.

The staff were seated in the Versailles Terrace of the Sheraton hotel on Seventh Avenue. The session started at 9am with a talk by Peter Norris on Barings' investment banking operations. Norris had reason to be well-satisfied with the year. Thanks to the derivatives profits, it looked as though Barings would virtually match its record profits of the previous year.

By the 10.30am break, Leeson could face no more, and went to the bar. He started drinking Bloody Marys with a fellow trader. He returned to the conference briefly in the afternoon, but was back in the bar by the time of Baker's round-up speech at 5pm. Baker had a message to deliver. They were not there just to enjoy themselves.

Baker wanted a cohesive group that worked together, exchanging information from all corners of the globe. If you listened to customers and traders in each market, and could bridge all the gaps among them, there were big profits to be made. He did not want anybody to sit on their laurels.

"Being good is not enough! Everyone must be connected to our strategy, or we will find you, and weed you out!" Baker told the hushed group in front of him. As he spoke, he reached out with his hand, imitating the action of digging out a weed. "Information arbitrage is our business," he went on in Messianic tones. "If you don't know what an information curve is, then find out! Position yourself in an information curve! Dominate the curve!"

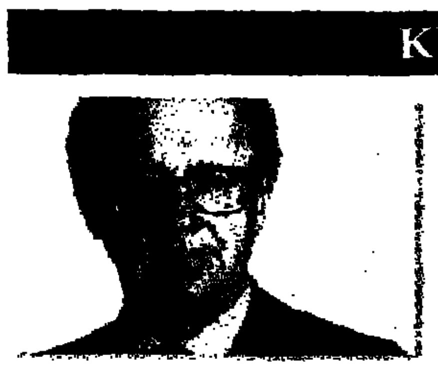
Leeson carried on drinking. At the moment Baker was describing a future for Barings based in part on the apparent triumphs in Singapore, Leeson was no longer able to sit and talk coherently about how he had achieved his success. He did not sober up enough to attend the final dinner, held on a balcony above the main concourse at Grand Central Station in midtown Manhattan.

At the dinner, Baker was in his element, although he was unhappy that Leeson was not there. Leeson seemed to have exploited a gap in the market best of all the traders. But Baker had not grasped the truth. The information curve Leeson dominated was not in the financial markets, it was inside Barings. For two years, Leeson had existed between Tokyo and Singapore, between front and back office, between traders and salesman. Now he had brought them all to the point of collapse.

TOMORROW: Falling to realise the truth

All That Glitters is published in the UK by Hamish Hamilton, £20. It can be ordered from FT Bookshop: Freecall 0500 418 419 or + 44 181 324 5511 from outside the UK (free p&p in UK)

KEY FIGURES IN NICK LEESON'S WORLD

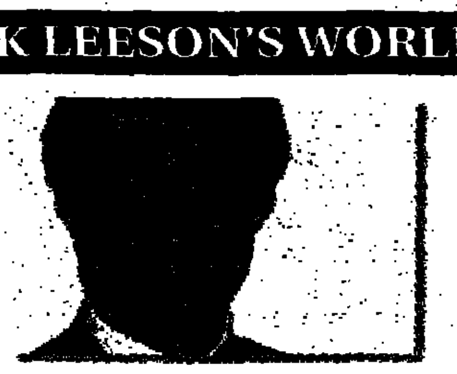


Peter Baring

Peter Baring, the 59-year-old chairman, joined Barings in 1959. A member of the founding family, he was aloof, quietly-spoken and deliberate: his stony features lit up only occasionally with a smile. He travelled to work by Underground from his home in Notting Hill, west London. He was almost teetotal, and very fit. His biggest extravagance was skiing on powder snow. His air of remoteness stemmed more from shyness than arrogance. Sometimes he even gave the impression of being a little embarrassed to be chairman. Many in the City regarded Andrew Tuckey, his deputy, as the force behind Barings.

Ron Baker

Ron Baker was Barings' 42-year-old head of derivatives trading. An Australian from Melbourne, he was intense and hard-working, but he also knew how to have a good time. He was fond of listening to the blues. Baker was constantly on an aircraft, regularly gathering his traders at weekend meetings in New York or Hong Kong, and urging them on to greater efforts. Baker had a first class economics degree, and a graduate diploma in accounting. He had worked in the eurobond market first for Bank of America, and then Bankers Trust. He left to set up a bond and derivatives trading operation at Barings.

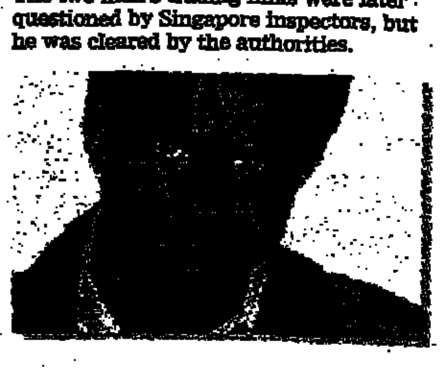


Peter Norris

Peter Norris was the 39-year-old chief executive of investment banking at Barings. The son of an Army major, he had attended Charterhouse, the public school in Surrey and joined Barings from Magdalen College, Oxford in 1978. Intelligent and self-assured, he was impatient with some of the older managers who reported to him. Norris was good-looking, with wolfish features. Athletic, he played rugby, tennis and Fives, a game played at British public schools. It was similar to squash, but instead of using racquets, players hit the ball with their gloved hands. Norris was so good that he went on to play for Oxford against Cambridge.

Danny Argyropoulous

Danny Argyropoulous, a 24-year-old trader for the Chicago broking firm First Continental Trading, was Leeson's closest friend on Simex. Teetotal, immensely energetic, he wore his long hair in a pony tail, with rings in both ears. He was born in Cyprus and moved to London, where he worked on the London International Financial Futures Exchange (Liffe). When he came to Simex, he and Leeson were almost the only British traders there. Their friendship caused jealousy among other brokers as Leeson came to dominate the exchange. The two men's trading links were later questioned by Singapore inspectors, but he was cleared by the authorities.



Cinema

Toys for the boys

STRIPTEASE
Andrew Bergman

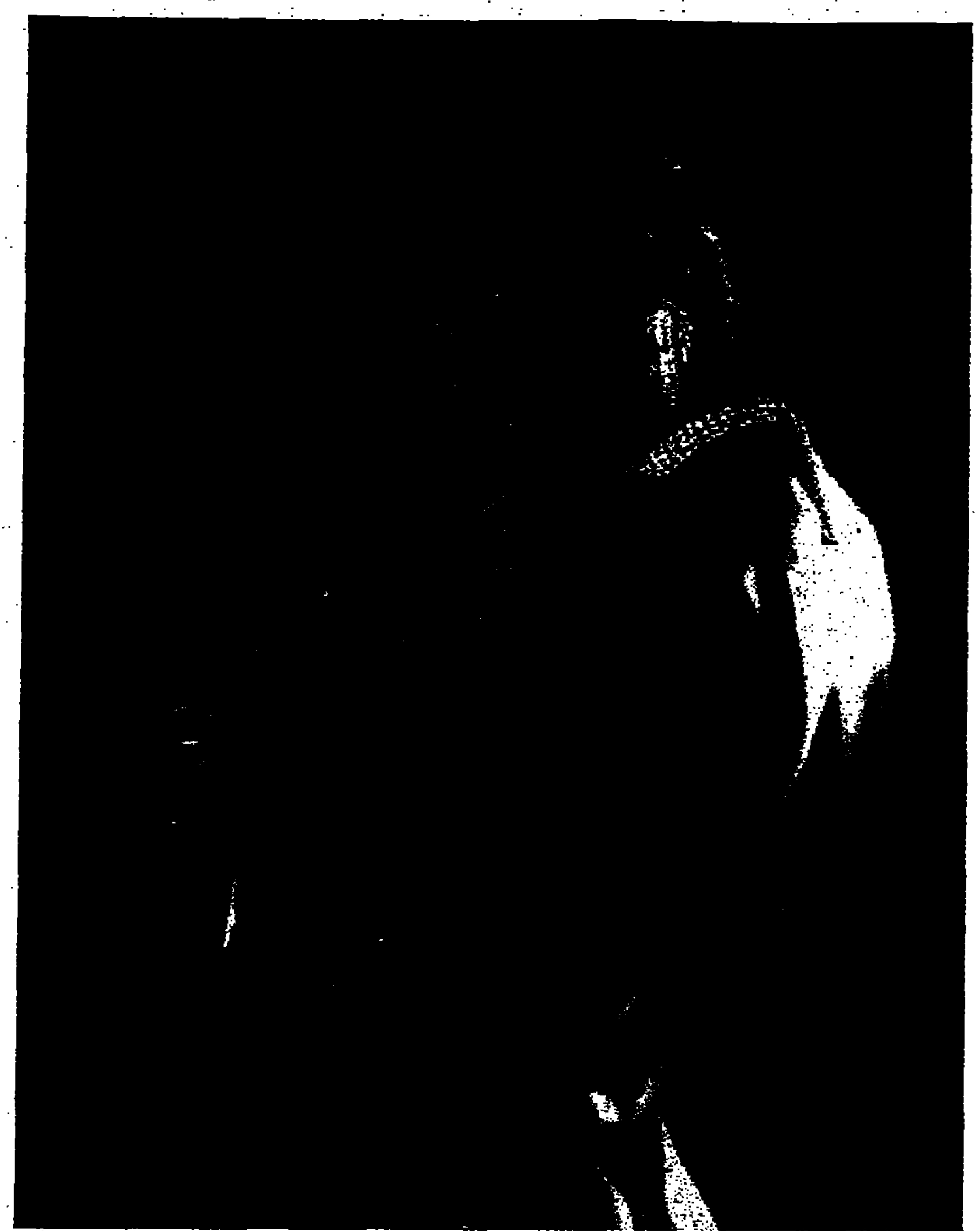
ESCAPE FROM LA
John Carpenter

THE GREAT WHITE HYPE
Reginald Hudlin

ANTONIA'S LINE
Marleen Gorris

THE INCREDIBLY TRUE ADVENTURES OF TWO GIRLS IN LOVE
Maria Maggenti

GUANTANAMERA
Tomas Gutierrez Alea and Juan Carlos Tabio



Demi Moore in 'Striptease': a few more clothes and she could scoop the village dancing cup

The welcome nip of early autumn means the end of packaged family fare, cinematically speaking. Alas, it heralds the season of toys for the boys. Last week the cerebro-masturbatory pseudery of Godard; and now the more basic wares of *Striptease*. The advance hype has been formidable; and yes, Demi Moore is as unlikely as an ex-FBI secretary-turned-stripper as Liza Minelli was as Home Counties Sally Bowles. Both actresses are much too professional at their fictional show-biz job.

Not that Moore of the well-muscled thighs is exactly erotic in her routines. Athletic, gymnastic, interpretative (a few more clothes and she could scoop the cup for creative dancing at any village hall festival); but tinglingly sexy, no.

While this fills out her role as devoted mother struggling to win custody of her tot (played by Moore's real-life daughter Rumer Willis with wonderful naturalness) from fruit-cake criminal ex-husband, it makes nonsense of the obsessive spell she casts on a congressman prone to satyriasis, and the murderous mayhem that ensues. The film is funnier than expected but not so funny as it seems to think itself. Armand Assante is miscast as a good cop; Burt Reynolds as the priapic politico has enough comic accomplishment to make one regret the comedy's ham-fistedness.

More toys for the boys in *Escape from LA*: a range of James Bond-type gadgets for the apocalypse. It is 15 years since Kurt Russell's anti-social Snake Plissken did the state some service in *Escape from New York*. Here he is again with an impossible mission: to penetrate the penal island that a post-earthquake Los Angeles has become to get back the black box that means mastery of the world from the president's renegade daughter, killing her if necessary.

Production designer Lawrence B. Paull, of *Blade Runner* fame, creates a marvellously murky post-catastrophic LA. The freaks that flourish there include Peter Fonda's zonked-out surfer, a black transexual criminal (Pam Grier), a gibbering show-biz entrepreneur (Steve Buscemi) and the Latino rebel who threatens the USA (George Corraface). Violence is unconvincing, some special effects look contrived (a tidal wave surging along Wilshire Boulevard, for instance), but the film's most intriguing element is its political stance. The appalling president rules a religiously orthodox US where sex outside marriage, red meat and smoking have been outlawed. The closing sequence shows our hero puffing contentedly on the last cigarillo on the continent, a comment on political correctness I thoroughly endorse. But one's never sure if the cavalier attitude to the Third World and the assumption of nefarious motives in expendable lesser races are intended seriously.

The Great White Hype's jokey reference to a more famous play and film about a black boxer reverses the cliché. Here we have a white boy (Peter Berg of *Chicago Hope*), a one-time amateur pugilist, dragged out of obscurity in grunge rock and launched as an Irish fighter ("I'm not Irish," he keeps protesting) to provide a sitting target for the cossetted and under-employed champion. It all sounds terribly plausible. The sceenplay by Tony Hendra and Ron Shelton goes further than mere sporting satire: this is a game of power, bluff, gullibility and exploitation. Reginald Hudlin's direction is pacey and stylish. The casting of Samuel L. Jackson (*Pulp Fiction*, *A Time to Kill*) as the unprincipled promoter, turbanned, coiffed and bejewelled, and Jeff Goldblum as a crusading TV journalist who sells out suggests a savage satire was intended; but it seems to have fizzled out. A shame; but Hudlin is a name to watch.

The week's releases include some feminist ballast to balance all this boyish biffing. *Antonia's Line* won an Academy Award as best foreign-language film in 1995, making Marleen Gorris the first woman director to receive an Oscar. At its best the gentle saga of village life covering the past half-century is suffused in tenderness and warmth. The village contains more oddballs than *Cold Comfort Farm*: a woman who bays at the moon, a curate who renounces religion to live with an earth-mother and have a dozen children, two village idiots who happily marry and reproduce, and so on. Its main fault is that it falls victim to the Archers' syndrome. This is a magnificently matriarchal society, but in this world of bucolic feasting, healthy toil and cheerful mollocking, there are no Pop Larkins. For the most part the men are there to sire children or provide villains – in one case a whole family: incestuous child-rapist who joins the army, bullying father fatally kicked by a cow he mistreated, murdering brother . . .

Willeke van Ammelroy makes a loving, dignified Antonia. Subsequent generations include an artist daughter who finds lesbian fulfilment, an academically brilliant grand-daughter, and a great-grand-daughter who inherits the family gift of quirky second sight. The academic has problems with relationships – but then she was raped as a child. Otherwise one wishes the sweetness could be diluted with a little bitchy astringency. Ilona Sekacz' score sometimes appropriately resembles a rustic Mahlerian jog-trot with a hint of the dance of death not far behind.

The director Maria Maggenti has been signed up to write for Steven Spielberg. An imaginative stroke, given that *The Incredibly True Adventure of Two Girls in Love* is about teenage high-school romance – lesbian style. In fact it's an engaging piece about a bohemian tomboy and a rich babe from a conventional background (by a nice reversal of stereotypes, the mansion-dwelling kid is black). A serious look at emotional exploration in the face of peers' hostility turns into a romp when the girls flee to a motel whither resort both families, school-friends, and ex-lovers and their jealous spouses in a finale that needs a Feydeau to choreograph it. Lovely performances from Laurel Holloman (tomboy) and Nicole Parker (princess).

The idea of breaking up a long funeral journey for economic reasons by making each district passed through responsible for its own relay of the cortège, sounds oddly similar to much in Conservative Britain: the BBC, the postal services, the railways. Yet in *Guantanamera* this is postulated as a typical bureaucratic idiocy in socialist Cuba. A co-director of this gently farcical comedy, allegedly based on fact, is Tomas Gutierrez Alea, director of the 1968 *Memories of Underdevelopment* that put Cuban cinema on the international map. This is small beer in comparison, though like the earlier work it contains some mocking criticism of communist bureaucracy. The plot follows a group of mourners taking a corpse to its home town for burial constantly encountering a lorry driver who has loved the woman mourner since she taught him at college. The mood is Caribbean Ealing: episodic, rollicking, incongruous.

Martin Hoyle

Leeds Piano Competition/**David Murray**

The keyboard gladiators

The 12th Leeds International Pianoforte Competition, now sponsored by Bunkamura, has reached its semi-finals. By this stage only 12 competitors remain, out of the original 86. Each delivers a 75-minute recital; then, on Friday and Saturday, the six lucky finalists get to play concerti with Simon Rattle and the CBSO, transmitted live on Radio 3 and BBC2.

Only one pianist from any English-speaking country, a young Irishman, has reached the semi-finals. His teacher is a member of the jury – but so always are the teachers of many competitors, including some who fall at the first hurdle; with an international jury of more than a dozen distinguished piano specialists, that is inevitable. Three other semi-finalists are in the same position. Last time round, three years ago, the unexpected winner had *two* teachers on the jury.

The current semi-finalists have been making sterling impressions. The youngest of them, 17-year-old Sa Chen, not only Chinese but wholly China-educated, displayed exuberant panache, imagination and a terrific left hand in Liszt's *Rapsodie espagnole*, and both sensuous delicacy and strength in Ravel's *Gaspard de la nuit* (if too little real *pp*, let alone *pppp*). Though her Chopin, the B minor sonata, glinted with fresh ideas too, its reflective slow movement reminded us that we were hearing a hugely talented teenager.

Carlo Guaitoli (Italian, 26) was deft and fleet in Dutilleux's sonata and Schumann's G minor one. Rather too tight-strung, without stretch or spring; that suited Prokofiev's A minor sonata very well, but not Guaitoli's chosen Debussy preludes, marred by little *ff* explosions that broke the textures and the spell. Theodora Satolia (Greek, 21) sounded pedestrian in Bach and ponderous in Granados. She screwed her eyes up at every poignant juncture – a tic she might usefully lose; but then she erupted in a powerful, grandly modelled Liszt B minor sonata, and a sumptuous *La Valse* in Ravel's own barely playable transcription.

To that same Liszt sonata and also to Beethoven's neglected op. 7, Mzia Simonishvili (Georgian, 30, mature, infectiously jolly) brought full-blooded feeling, wit and robust technique. She tended to become hectic toward the ends of things. Armen Babakhanian (Armenian, 28) was more coolly calculating with everything he played, almost stagey. But his calculations were precise: his Beethoven "Appassionata" went off with a resounding impact, and his Tippett 2nd Sonata was gleefully eager and sharp.

Though Dmitri Teterin (Russian, 24) is reported to have played Chopin's two books of *Etudes* splendidly in the second round, he cannot have done himself justice in these semi-finals. Idiomatic feeling in a Shostakovich prelude-and-fugue, but laboriously slowed for difficult bits; a dull Gluck transcription, hardly worth playing; Beethoven's 32 Variations, with limply irresolute endings for almost every one, and a patchy Liszt *Venezia e Napoli* with toneless pianissimi. And yet he does seem to be a pianist of parts: perhaps the two Russian jurors will help to see him through?

Theatre/**Alastair Macaulay**

A satire to kill for

Popcorn, Ben Elton's new play, is so new and so on-target, so delicious a blend of thriller and satire, that one can only wonder why it is not having a London opening. At any rate, congratulations are due to the Nottingham Playhouse, where *Popcorn* is having its first-rate premiere production, and the West Yorkshire Playhouse, to which it will transfer next month.

Primarily, *Popcorn* is satire, virtuoso satire on the way our culture encourages individuals to deny responsibility for their own actions. The scene is L.A.; and the central figure is Bruce Delamitri, an American film director way beyond Tarantino in his talent for making killing seem witty, sexy, and glamorous. Newt Gingrich and the American right are blaming him for his influence on real-life killers. And then we see two real-life killers, who kill and steal for fun, and who are, indeed, steeped in Delamitri's films.

In fact, when first we see them, we presume they are film characters he has created. But no. Not only are Wayne and his girlfriend Scout for real, they kill and burgle their way into Delamitri's house while he is out winning an Oscar. They come downstairs from having made love in his bed to find him making love downstairs with Brooke, a nude model whom he has picked up. Wayne and Scout could not be happier. Delamitri is their hero! They've seen Brooke's double-page spread! And they're holding them both at gunpoint!

Wayne's brainwave, however, is to claim innocence. He and Scout are victims, victims of the culture they live in and they want Delamitri, as a prime shaper of that culture, to take responsibility for their actions, and to admit that responsibility on TV. If not, they'll blow out either his brains or those of his nearest and dearest . . . The next twists in the action are enthralling. *Popcorn* mixes horror and comedy well enough to resemble a Tarantino movie, even while it satirises Tarantino's America.

Director Lawrence Boswell helps *Popcorn* unfold as surprisingly and as fluently as he has done with plays by Lope de Vega and Euripides. Above all, there are two outstanding and well-matched performances by Vincenzo Nicoli as Delamitri and Patrick O'Kane as Wayne. Nicoli, easily carrying much of the play in its hardest role, is an outstanding actor. Projecting physical and mental force, he is both menacing and vulnerable, likeable and disturbing, and he catches Delamitri's mixture of victimhood and absurdity to perfection. Patrick O'Kane makes Wayne a rivetingly ludicrous figure, a shrewd nerd, so blithely relaxed amid the mayhem he creates as to be sexy. His violence is so spontaneous that it takes us by surprise, every time. Dena Davis is his perfect foil as the part-dumb, part-alert Scout.

Popcorn's satire is not its only virtuoso element. It is very well constructed; Elton has been learning about playwriting fast. No, this comedy is not some modern classic. It is, however, marvellously welcome because it is so *needed*.

Nottingham Playhouse until October 12; then Leeds, West Yorkshire Playhouse, to November 9.

Dena Davis and Vincenzo Nicoli in Ben Elton's 'Popcorn' Alastair Muir

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● Betty Woodman. Vazen en tekeningen: exhibition of vases and drawings by the American ceramist Betty Woodman; from Sep 21 to Nov 10

BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Rundfunk-Sinfonieorchester Berlin: with conductor David Shallon and soprano Christine Schäfer perform works by Dukas, Reimann, Stravinsky and Debussy; 8pm; Sep 22
● Südwestfunk-Sinfonieorchester: with conductor Jiri Belohlavek and violinist Christian Tetzlaff perform works by Schoenberg and Brahms; 8pm; Sep 20

EXHIBITION
Alte Nationalgalerie Tel: 49-30-2035550
● Manet bis Van Gogh. Hugo von Tschudi und der Kampf um die Moderne: exhibition on the occasion of the 100th anniversary of the appointment of Hugo von Tschudi as director of the Alte Nationalgalerie. Main theme of the exhibition is his leading role in the introduction of "modern" French Impressionist art in Germany. The display includes works of French art that were acquired in those days by the Alte Nationalgalerie and other German museums and collectors; from Sep 20 to Jan 6

COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Ensemble Modern: with conductors Peter Eötvös and Jobst Liebrecht and narrator Heinz Klaus Metzger perform works by Tsangaris, Varese and Beethoven; 8pm; Sep 22

EXHIBITION
Museum Ludwig Tel: 49-221-2212379
● Lewis Hine – Die Kamera als Zeuge: exhibition of photographs by the American sociologist Lewis Wickes Hine (1874-1940). Among the works are his photographs of American immigrants on Ellis Island, child-labour, and the construction of the Empire State building; to Nov 24

COPENHAGEN

EXHIBITION
Charlottenborg Exhibition Hall Tel: 45-33 13 40 22
● 125 years of Danish Sculpture – The Royal Museum of Fine Arts visits Charlottenburg: on the occasion of the 125th anniversary of Den Danske Bank, a series of exhibitions is presented at 18 art museums and galleries all over Denmark under the title "Danish Sculpture in 125 Years". Each exhibition provides a survey of what has happened in the field of Danish sculpture since the era of the classicist sculptor Bertel Thorvaldsen. The exhibition at the Charlottenburg Exhibition Hall features nearly 200 sculptures, selected from the collection of the Royal Museum of Fine Arts; from Sep 21 to Oct 27

INDIANAPOLIS

EXHIBITION
Indianapolis Museum of Art Tel: 1-317-923-1331
● The American Discovery of Ancient Egypt: exhibition of more than 200 Egyptian artefacts discovered by American scholars between 1899 and 1970. Works range from the pre-dynastic period (about 4000BC) to the end of the Roman period (AD395) and include jewellery, ceramics, free-standing sculpture and reliefs; to Sep 29

LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● The Kingdom: by Elgar. Performed by the Bournemouth Symphony Orchestra with conductor Richard Hickox, soprano Susan Chilcott, contralto Linda Finnie, tenor Adrian Thompson, baritone Peter Coleman-Wright and the Bournemouth Symphony Chorus; 4pm; Sep 22
Wigmore Hall Tel: 44-171-9352141
● Marc-André Hamelin: the pianist performs works by Mozart, Janácek and Prokofiev; 11.30am; Sep 22

EXHIBITION
Tate Gallery Tel: 44-171-8878000
● Tacita Dean "Foley Artist": Tacita Dean often works within the framework of cinema. In "Foley Artist", she principally uses sound, rather than pictures or dialogue, to convey a story, and to evoke its mood and setting. Foley artists are the little-celebrated film professionals who invent sounds to accompany visual footage, using a wide range of props. Dean has worked with foley artists to create a multi-track narrative based on sound effects. Individual elements are relayed to speakers placed around the Art Now room; to Nov 10

LOS ANGELES

EXHIBITION
Los Angeles County Museum of Art Tel: 1-213-857-6000
● Designing Modernity: The Arts of Reform and Persuasion, 1885-1945: this multi-media exhibition seeks to explore western society's response and reaction to modernisation, the dominant force following the industrial revolution and proceeding through the aftermath of the second world war. The display features nearly 285 objects including European and American paintings, sculpture, prints, furniture, metal work, ceramics, glass, books, toys and ephemera. Artists represented include William Morris, Frank Lloyd Wright, Peter Behrens, Hector Guimard, Mies van der Rohe, Marcel Breuer, Isamu Noguchi and Walter Dorwin Teague; to Sep 22

MADRID

EXHIBITION
Palacio de Velázquez Tel: 34-1-573-62-45
● Cindy Sherman: exhibition of a selection of some 70 photoworks featuring examples of the "Untitled Film Stills" of 1977-80 which brought Sherman international recognition. Also on show are works from her most extreme photo-series "Disgust Pictures" (1986-1989), "Sex pictures" (1992) and "Horror Pictures" (1995), the most recent of which have not been exhibited previously; to Sep 22

NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● American Printmaking 1860-1900: Winslow Homer and His Contemporaries: an exhibition to complement the Homer painting retrospective by providing a context for the artist's printmaking efforts. Drawn from the museum's collection, Homer printmaking from his early and late career is shown along with works by printmakers active during Homer's career; to Sep 22
The Pierpont Morgan Library Tel: 1-212-685-0008
● 17th Century Dutch Drawings in The Pierpont Morgan Library: this complementary exhibition to "A Fine Line: Rembrandt as Etcher" includes about 70 works by masters of the Golden Age of Dutch Art; to Jan 5

VIENNA

EXHIBITION
Kunsthistorisches Museum Tel: 43-1-52524
● Meisterwerke aus der Prager Burggalerie: exhibition featuring a selection of paintings from the collection of the Fortress of Prague, which holds mainly works from the Renaissance and Baroque periods. The display includes 29 works by artists such as Palma Vecchio, Tintoretto, Bassano, Veronese, Pordenone, Stevens, Hans von Aachen, Rubens, Fetti, Peter Brandl and Jan Kupecky; to Sep 22

ZURICH

DANCE
Opernhaus Zürich Tel: 41-1-268 6666
● Goldberg-Variationen: a choreography by Heinz Spoerli to music by J.S. Bach, performed by the Zürcher Ballett; 2pm; Sep 22

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

BBC for Europe can be received in western Europe on medium wave 648 kHZ (463m)

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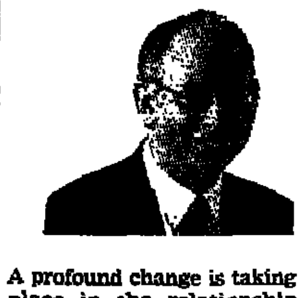
17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



Peter Martin

The end of a golden era

A growing reluctance among companies to run pension schemes for their employees symbolises the gradual weakening in their long-term relationship

A profound change is taking place in the relationship between companies and the people who work for them.

Corporate rhetoric obscures the change. Bosses still parrot phrases such as "people are our most important asset". The widespread sackings of the recession are portrayed as one-off blood-lettings, essential to preserve the jobs of the workers who remain.

Yet under the surface, everything is in flux. The transformation of the relationship between company and workforce is best illustrated not by the occasional moment of crisis when only brutal action can ensure survival, but by the thousands of humdrum decisions made in calmer times.

For example, on pensions. Nothing could be duller, less dramatic, than a British company's pension policy. Yet nothing better symbolises the nature of the long-term relationship between a company and its employees.

The very existence in the UK and other Anglo-Saxon countries of funded company pension schemes is testimony to a particular view of that relationship. Not only did companies, big and small, agree to contribute to their employees' pensions; they also took the responsibility of organising the scheme and in effect guaranteeing the ultimate income, usually as a percentage of final salary.

The essence of such "defined-benefit", final-salary schemes has been that they shifted the risks of such long-term savings on to the shoulders of the company.

Those risks are substantial: that contribution levels might not create a big enough pot of money at the end of a career; that the value of these assets might fluctuate during the years of retirement; that inflation might erode the value of the stream of payments. An individual seeking to contract independently to cover such risks with insurance companies or other long-term savings institutions must pay a substantial price.

Yet companies have been willing to take on the role of paymaster of last resort for their pension schemes, receiving no fee for the task.

Acting as a pension fund's Deep Pocket has benefits for the company and its shareholders that go well beyond the tax advantages involved. In particular, it has allowed UK pension funds to make a huge bet on equities.

Shares offer consistently higher long-term returns than assets such as bonds or cash, at the price of potentially greater volatility. An individual saving for the long term would have to bear that volatility in mind: what if retirement coincided with a period of low equity values?

In a defined-benefit pension fund, this risk is borne by the sponsoring company. Because it promises to top up the fund if needed, the scheme's managers can ignore the risks attached to equities as a class. The higher returns derived from equities greatly reduce the long-term cost to the company of providing pensions: indeed British business as a whole has made little or no net contribution to pension funds in recent years.

Still, a company is not a co-operative or a charitable institution. The risks for shareholders inherent in this approach have been absorbed in the past by a number of characteristics of the British pension system.

Early leavers – whether voluntary or involuntary – traditionally received poor treatment compared to those who stayed to retirement. Arguably, it is they who have borne the true burden of the pension guarantee. Pensioners retiring at times of sharply rising prices also risked a fall in the real value of their incomes, since companies often increased pensions by less than the rate of inflation.

Both these injustices have been corrected by amendments to pension law and a falling rate of inflation. But this has removed the safety valve which made companies happy to guarantee defined-benefit pensions. The introduction of an obligatory "Minimum Funding Requirement" as an annual check on the solvency of pension schemes has raised the stakes further: it is likely to raise the long-run cost of pensions by pushing many funds away from equities and towards bonds.

The corporate reaction has been instructive. Companies are increasingly unhappy to assume the risks they once freely chose to accept; some are washing their hands of the pensions business altogether.

A growing number has replaced defined-benefit plans with "defined-contribution" schemes: employees receive a pension that reflects the return on the contributions made on their behalf, with no link to final salary. Others have gone further, merely offering to contribute to employees' personal pensions.

These relatively arcane changes have revealed the inherent tension between the company as a vehicle for its shareholders, and the company as a social entity. Recession has in any case weakened the social role of the company: if it cannot offer employment stability, it becomes progressively a more fragile community. Yet the pensions issue goes to the heart of the company's identity in a way that even job instability does not.

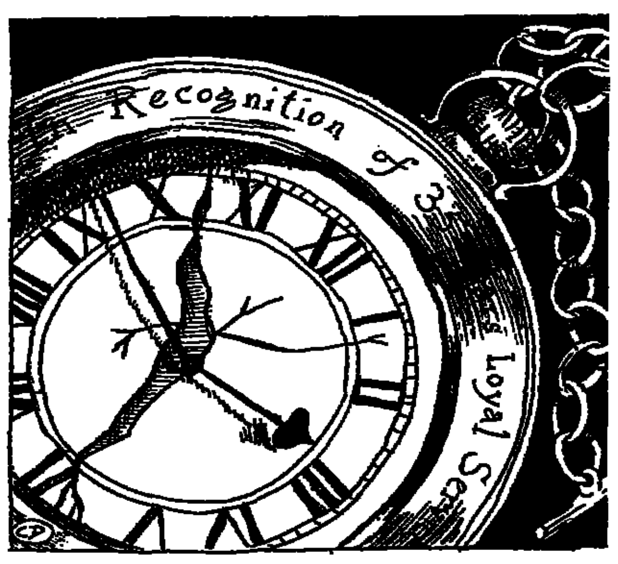
Is the company merely a bundle of assets with an income stream, a net present value and a market price? Or is it a social organism, part of a historical continuum stretching back to its founders and forwards to those future employees who will carry on its name and values?

A caricature of national business cultures would have continental European countries lined up with the second view; Anglo-Saxon ones with the first. In practice, for most of the modern era, all but the most ruthless English-speaking asset-strippers have believed nearly as strongly in the continuum theory as their continental cousins. It answers, after all, the deep human need to create immortality, to leave something behind to mark one's passage.

The creation of funded pensions illustrates that belief. It is not just the money. There are also the rituals that accompany it – the pensioners' lunches, the cheery newsletters, the encouragement of a sense of shared community between those who started work today and those who retired a generation ago.

This era is drawing to a close. Smaller companies, most sensitive to pension costs, are voting with their feet. A survey carried out for an actuaries group and published this week* found that among smaller companies with defined-benefit schemes, 16 per cent have closed them to new entrants. Two-thirds of new defined-contribution schemes have been set up to replace earlier defined-benefit arrangements. And, the survey found, defined-contribution schemes are noticeably less generous, in terms of company contributions, than the typical defined-benefit scheme.

Even if the final-salary pension is on its way out, the millions of people currently covered by such arrangements will benefit from them well into the 21st century. But the shift away from this type of pension scheme indicates a change in the *zeitgeist*. Like the trend towards unbundling the corporation, the pension issue illustrates how British companies are becoming more like their Anglo-Saxon stereotype.

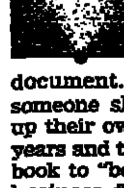


**The changing face of UK occupational pensions in smaller companies. Association of Consulting Actuaries, No 1 Wardrobe Place, London EC4V 5AH*

BOOK REVIEW • Lucy Kellaway

MEMOS FROM THE CHAIRMAN: By Alan C. Greenberg
Workman, $14.95, 156pp

Despatches from the king of paper clips



Long, pompous, irrelevant: the average office memo is an uninspiring document. The idea that someone should have saved up their own memos over 18 years and turned them into a book to "benefit everyone in business from Fortune 500 chief executives to entrepreneurs" is a curious one.

Yet these are not just any old memos and Alan "Ace" Greenberg, the head of Bear Stearns since 1978, is not any old chairman. His picture on the dust-jacket shows a bald man playing with a yoyo – making clear that Ace is one hell of a guy. In the preface his great friend Warren Buffett assures us that "Ace Greenberg does almost everything better than I do – bridge, magic tricks, dog training, arbitrage – all the important things in life".

Management guru Tom Peters is still more breathless: "I love this book. If I didn't have a dreaded MBA I might even, at age 53, apply for a job at Bear Stearns," he says on the back cover.

Not all readers will feel like applying to the Wall Street securities house on the strength of this book, however. Alan Greenberg is certainly an ace at writing short, punchy memos, but he does not come over as everyone's idea of the ideal boss.

The typical memo gets off to a thundering, provocative start: "We are having a problem getting a point across!", or "Stop it now!". He proceeds to issue new rules about answering the telephone promptly and politely, turning lights off and looking clean and tidy.

Often he winds up with a threat: "From this date forward any person who violates this simple rule will receive a very quick simple fine. Enough is enough – we have tried being Mr Nice Guy – it did not work."

As if his own personality were not enough to keep his staff to the straight and (very) narrow, he has invented an imaginary consultant called Haimchinkel Malintz Anaynikal to help him. Haim, a tightwad reactionary, believes the following: 1. Hire PSDs ("poor, smart and a deep desire to become rich"). 2. Make decisions on common sense and avoid the herd. 3. Control expenses. 4. Beware of catchy phrases. 5. Stay humble humble humble.

The approach of Greenbergand Haimchinkel is delightfully unfashionable. Modern chairmen are supposed to empower the workforce to make its own decisions, concentrating their own efforts on setting strategy. But Greenberg does not believe in strategy.

"It was just announced that some prominent people in M & A just left a firm because of a difference of opinion over strategic planning," he wrote in 1988. "At Bear Stearns we have no strategic planning."

Once again, Haimchinkel Malintz Anaynikal comes out as one smart dude. Remember his Axiom 1023? "The amount of dissension rises geometrically with the more issues you have to philosophise over."

The more of his memos you read, the more sensible Greenberg's approach appears. Making money, especially in a trading business, really does consist in paying close attention to detail and tirelessly enforcing the company's rules. Expenses need to be controlled, though one wonders if Greenberg goes too far. Nearly a quarter of his memos are concerned with cutting costs, and no cost is too small to be cut.

In 1985 he issued this edict: "I have just informed the purchasing department that they should no longer purchase paper clips. All of us receive documents every day with paper clips on them. If we save these paper clips, not only will we have enough for our own use . . . but we will collect excess and sell them."

A week later he sent out another memo: "I would like to extend our cost-cutting efforts to a larger matter. Bear Stearns will no longer purchase rubber bands. If you have trouble understanding [this] either trust me or call Haimchinkel Malintz Anaynikal directly."

"Make me rich" he kept urging jokily in his early expenses memos. But by the later ones he invokes the company's profitability instead – there is no further mention of his own wallet. Indeed, by 1994 he was receiving adverse publicity in the US for his $13m (£8.4m) pay packet.

Still, as Greenberg points out, his individual managerial principles seem to work. More than a decade before the Barings crisis, he was sending threatening memos about the error account and offering rewards to staff for shopping colleagues. Moreover, when everyone else on Wall Street was cutting jobs each time the market turned down, Bear Stearns went on hiring.

However much one admires Greenberg's dash, the ever-present Haimchinkel Malintz Anaynikal grates on the nerves. More tiresome still is the way he quotes from earlier memos and demands that staff refer to those written several years earlier. This strikes an unfortunately dictatorial note. A good memo may be an art form, but it is surely meant for the moment. One cannot help wondering whether Greenberg lives by the rules of his beloved Haimchinkel: "Stay humble humble humble."

Memos From The Chairman *is available from FT Bookshop. FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK*

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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What investors need to be told

From Mr Alex McClarty.

Sir, Referring to Barry Riley's "When Scandinavia gets too hot for comfort" (September 11), I am pleased to see that some realise the difficulties facing the private investor, namely gauging the liquidity (and therefore the riskiness) of unit trust investments.

The fact is, that for 90 per cent of investors, such information is just not available. If one tries to get it or asks for more up-to-date information than an outdated managers' report, the reply is often: "That is sensitive information and cannot be provided."

I therefore take issue with your comment on September 7 ("Misplaced trusts") that "investors would be expected to pay the price for such a lopsided portfolio". The investor has no idea that the portfolio is so lopsided or is illiquid because the managers refuse to inform their unitholders of the true state of affairs.

The only risks an investor can reasonably be expected to gauge are the regional market and currency risks in a regional fund, or the industry risks in an industry-specific fund. It is high time that Imro, the industry regulator, sat down and developed more stringent and useful disclosure regulations. A liquidity ratio as discussed by Mr Riley would be a good start.

We all know that unless rules exist, next to nobody will volunteer information. As for the additional costs – they are minimal and should be absorbed by the managers who charge exorbitant management fees. A comparison with their "expensive" German competitors would open a few eyes in the UK fund management industry!

Alex McClarty,
Occamstr. 4,
D-80802 Munich,
Germany

No such market for top executives

From Mr Peter M. Oppenheimer.

Sir, One gets tired of hearing bodies such as the Institute of Directors justifying, or explaining, top executive salaries in the UK by reference to a supposed international market for the executives in question ("Top directors' packages rise by more than 12 per cent", September 17). There is no such market. Leading executive positions in the larger companies are filled overwhelmingly by nationals of the company's own country of origin and head office. Exceptions to this rule are almost invariably persons who have made a long-term career in the company in question. The once-in-a-blue-moon international recruitment of an outside top executive is a headline-making sensation, not a routine market occurrence.

It might nonetheless be interesting to speculate to what extent, if there were such a market, British executives would be capable of competing in it. Perhaps the IoD can tell us what percentage of UK executives with telephone-number salaries are (a) technically qualified in relation to the industry which employs them, and (b) able to conduct a conversation (or for that matter, order a boiled egg) in a language other than English.

Peter M. Oppenheimer,
Christ Church,
Oxford OX1 1DP, UK

Too simple an argument over France

From Mr Charles Wilson.

Sir, Mr Robert Rainford (Letters, September 17), in his desire to remove confusion on the Emu debate, seems to be going too far in his desire for simplicity. He equates two facts: France has unacceptably high unemployment; France is trying to respect the criteria for Emu. If France were to drop its fight for Maastricht, the argument seems to be, we would be as happy as you all are over the Channel.

Mr Rainford seems to forget that most of France's other economic indicators show a brighter picture: low inflation, external trade in balance, relatively low interest rates. What is wrong with the French economy concerns, unfortunately, those elements where Maastricht is an excuse for a medicine which would probably be necessary anyway – a state sector too large, and suffering problems caused by over-ambitious decisions made some years ago (Crédit Lyonnais), or from postponing uncomfortable decisions (over-capacity in weapons manufacture).

The private sector suffers from high labour costs, which are not the result of Maastricht's social chapter. France and Germany decided many years ago on systems of social welfare which are politically untouchable, and they would like to see a level playing field where their nearest competitors are unable to take advantage of "social dumping" to obtain commercial advantage.

Dropping the fight for Emu may or may not be a good thing for France and for Europe, but surely there are better arguments against Emu than to say France has high unemployment, therefore Emu is bad.

Charles Wilson,
19, Allee Vauban,
Eysines, S.W. France

Threat was ignored

From Mr Andrew Warren.

Sir, Is it a simple oversight or wilful tunnel vision that permits you – for the second year running – to publish a six-page supplement "Power In Asia" (September 16), without once making a single acknowledgement of the threat of climate change? It is not as if the governments upon whose electricity industry you report are non-contributors to the international forums, set up to try to deal with what is now acknowledged to be the world's most pressing environmental problem.

As the profligate burning of fossil fuels in electric power stations is the largest contributor to this threat, you might do well to report the expected 8 per cent growth in consumption by 2010 with other than unmitigated glee. Next time you might consider the full implications.

Andrew Warren,
director,
EuroACE,
Prins Boudewijnlaan 41,
2650 Edegem, Belgium

Deflated

From Ms Antonia Giulia Carzaniga.

Sir, I was surprised to read ("Italian inflation tumbles", September 6) that over the month of July, for the first time since 1968, a negative growth in inflation had been recorded in Italy. I suppose your report wanted to say that, for the first time since 1968, deflation (i.e. negative inflation), or, alternatively, a negative growth in prices, had been recorded.

Fortunately for the Italian economy, inflation, the growth rate of prices, had declined on many occasions since 1968.

Antonia Giulia Carzaniga,
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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday September 19 1996

A slice of French fudge

The French government has long needed a miracle to allow it to meet both its Maastricht promises and the ones it has made to the French electorate. Either that, or some very fancy budget footwork. Yesterday's 1997 budget was a deft example of the latter.

With no miracle in sight, the government has probably done as much as could have been expected in juggling the conflicting demands of its European partners, a stagnant economy and a disgruntled electorate. But the creative accounting it has taken to do it will not fool anyone.

On paper, next year's overall public deficit will be 3 per cent – in line with the Maastricht criteria – but the real progress in slimming the gap between central government revenue and spending looks set to be very modest. Spending will be frozen in real terms – for the first time, it must be said, in the history of the Fifth Republic. But taxes have also been trimmed in an effort to get the economy moving again. The end result, before the use of fancy financial footwork, is a central government deficit only FFr4.3bn less than this year.

A few months ago Mr Jean Arthuis, the French finance minister, was keen to persuade the markets and his European colleagues that France would abide by the spirit of Maastricht in its efforts to knock the budget deficit down to 3 per cent. Come the fateful day, there might have to be a fudge or two around the edges – but France must be seen to be trying.

The even slower than expected pace of the economy this year has made more drastic action very difficult, to be sure. Even with relatively optimistic assumptions, next year's budget deficit is now expected to be 3¾ per cent of GDP. And it is now formally predicted that this figure will be massaged downward with France Télécom's special payment and other one-off transfers. This does not look like a bold effort.

One area where the government might have been bolder is in shrinking the size of the civil service: it has been able to promise a total reduction in jobs of only 5,000, out of 2.2m in the public sector. That is feeble. Social security spending is more difficult to cut quickly, but even there a continuing deficit of FFr30bn is disappointing.

But the real problem is that Mr Arthuis has been forced to use his fudge so soon, which must restrict his room for manoeuvre next year if his assumptions prove too optimistic. He has sought to demonstrate his absolute determination to meet the Maastricht targets. But the exercise remains less than wholly convincing because of the jiggery-pokery.

Tangled yarn

For more than a decade, Europe's textiles and clothing sector has been caught in a spiral of decline to which there is still no end in sight. All the signs point to further heavy job losses, factory closures and restructuring. But instead of encouraging the industry to try to regain competitiveness, the European Union is planning action which seems destined to make its problems worse.

EU governments are poised to approve provisional anti-dumping duties of up to 30 per cent on imports of unbleached cotton fabric from several, mostly Asian, countries. The planned penalties result from a European Commission dumping investigation, launched after persistent lobbying led by French and Italian cotton weavers, which claim the imports are sold at unfairly low prices.

Unbleached cotton fabric is a raw material used in the manufacture of many types of textiles and clothing. EU production of the fabric has dwindled steadily and today meets barely a quarter of total demand. Dumping duties on imports amount to taxes on an essential input for European users. The predictable consequence will be to handicap internationally competitive textiles and clothing manufacturers and encourage them to shift more production, and jobs, to cheaper locations abroad.

This perverse exercise in industrial policy also sends disturbing signals about EU trade policy. The Uruguay Round requires the EU to dismantle by early next century the quotas which have long ringed its textiles and clothing markets. But its progress towards that goal has so far been minimal. Under pressure from European producers, Brussels is insisting it will speed up the timetable only if developing countries agree first to liberalise their markets. These are flatly resisting any such deal, arguing that the EU is demanding concessions from them as the price for fulfilling its obligations under international trade rules.

Intentionally or not, brandishing the dumping weapon looks like an attempt by the EU to apply coercion to trade partners after persuasion has failed. It raises doubts about the sincerity of the EU's commitment to removing quotas. It also arouses suspicions that any liberalisation thus achieved will be negated by the erection of new types of barrier.

The failure of years of protection to halt the contraction of the European textiles industry gives no reason to believe that more of the same will do any good. By continuing to shelter its producers, the EU is encouraging them to delay inevitable adjustments. As a result, eventual change will be still more painful than it need be.

Major's morals

When politicians talk about morality, it is time to head for the door. They are usually trying to sell something which is difficult to deliver.

Last night Mr John Major, the UK prime minister, stretched the language of ethics far beyond its limit by applying it to the ratio of public spending to gross domestic product.

Conservatives, Mr Major said, believed that reducing the role and size of government was not just a policy option, but a moral imperative. It was not moral, he said, to take too much tax from people for government to spend, and diminish individual choices.

The Tory faithful will chant a fervent "Amen". They will be delighted, no doubt, that their leader can show that Mr Tony Blair, the Labour leader, is not the only preacher in town.

The two contenders are trying to differentiate themselves by playing upon contradictory aspirations. Mr Blair would like Britain to be a more decent society, looking after the old and infirm, and educating children better. He knows the public wants this, but is unwilling to pay the price in higher taxes. Mr Major emphasises individual choice (through tax cuts). But he knows that any serious move in this direction would require unpopular cuts in spending programmes such as health and welfare.

In all advanced economies, voters tend to demand the goods and renege on the price. Governments connive by going into debt. So righteousness, if it exists in this context, consists in being honest about how the books can be balanced.

In the UK, as the Tories well know, the government's share of the economy has stayed obstinately close to 40 per cent for the past two decades. Despite all the Conservatives' efforts, it is slightly above what it was when they came to power in 1979. This is partly because the rise in unemployment has offset the effects of other reductions in the public sector.

However, at 43 per cent, the size of the UK's public sector relative to its economy is close to the average for all developed countries, significantly lower than the average for all EU countries (50 per cent) and not as different from Japan (37 per cent) as many people imagine.

This suggests that, although there is room for debate about the balance between the tax burden and state services, that achieved in Britain in recent decades is fairly close to what the public wants (and will tolerate) in much of the the developed world.

Mr Major never tires of denouncing New Labour for the sin of offering benefits while suppressing the cost. If he wants to achieve superior righteousness he should now tell the public that lower taxes depend on cuts in services or benefits – and which ones. This is a new danger for both parties.

Smooth take-off for shake-up

British Airways is tackling its labour costs before it is forced to do so by competitive pressures, says Michael Skapinker

When a company changes in less than a decade from being a slothful state enterprise to being one of the few UK groups regarded by international competitors as a role model, what does it do for an encore?

This was the question facing Mr Robert Ayling when he took over as chief executive of British Airways at the beginning of the year.

At first sight, he did not have to do much. The company's pre-tax profits last year of £585m were the highest of any airline in the world. In this week's FT and Price Waterhouse survey of Europe's most respected companies, BA was placed second after ABB, the Swedish-Swiss engineering group. It was the only airline in the top 20, apart from Swissair which came 18th.

For Mr Ayling to have continued to run BA in the way it has been since it was privatised in 1987, however, would have been to ignore changes in the airline industry which threaten the profits of even the most successful carriers. Without radical change, according to Mr Ayling, BA's profits would have evaporated by the end of the decade.

Yesterday he announced that 5,000 of BA's 55,300 employees would be offered voluntary redundancy. They will be replaced, however, by a similar number of more highly skilled, more flexible employees, who will be recruited over the next three years.

Managers in several areas of BA's business, such as baggage handling and ticket processing, have been told they must ensure they can do the job as cheaply as outside suppliers. If not, their activities will be contracted out.

The announcement was less dramatic than many employees had feared. There had been reports that the airline was planning to cut employee numbers by 10,000 and that the company would spend £60m designing a new logo.

"We are thinking about a new logo but we're not planning to spend £60m on it," says Mr Ayling. "I can't think of anything more insensitive than asking for 5,000 redundancies and then spending £60m."

Mr Ayling says the plan announced yesterday was not a definitive statement of the shape of the airline at the end of the decade. Managers have been set targets on matters such as costs, aircraft punctuality and better use of assets, and told to find ways of achieving them.

"At the moment, I'm not dictating to my management and telling them what decisions to take. We have said: 'This is the road, these are the kinds of ideas we have. You know your business, you know there's a redundancy programme, you have your performance targets.'"

In a series of briefings to managers and unions Mr Ayling has portrayed the unforgiving world in which modern airlines operate.

"The competition is getting better and more efficient," he told staff yesterday. "Our customers expect more, but our cost of providing a seat has risen faster than the price customers pay in a highly competitive market."

Airline executives around the world have been repeating this message, often in more lurid terms. Mr Robert Crandall, chairman of American Airlines, said this week of the aviation industry: "It's one of the most miserable businesses in the world."

Add up carriers' financial results since the start of commercial flight, he said, and you will find that the world's airlines have made a cumulative loss.

And Mr Jürgen Weber, chairman of Lufthansa of Germany, warned employees earlier this month that their airline would go bankrupt without a cut in employment costs.

"What we really need is a negative pay increase," he told them. "How could it be otherwise, since we get less and less money for our tickets? If we don't want to make losses again, we have to do something about our personnel costs – otherwise I can calculate right now when we'll go bust."

Central to the problem is the long-term fall in air fares. Airline yields – the amount received for each mile they carry a passenger – are falling by 1 per cent a year, according to Boeing of the US, the world's biggest aircraft manufacturer.

The reasons for the fall include the greater competition induced by liberalisation of air travel in the US in the 1980s, which is being followed by increased deregulation in Europe. Low-cost carriers, which offer little on-board food or entertainment, are entering the market, undercutting the fares of large airlines.

Long-haul travel – from Europe to Asia, for example – is growing more quickly than short-haul. This depresses fares as airlines can charge more per mile for short flights than for longer ones. And leisure travel is growing faster than business travel. Holidaymakers are not prepared to pay as much for their tickets as business travellers.

The most obvious area for airlines to tackle if they want to win an advantage over competitors is labour costs, says Mr Rigas Doganis, professor of air transport at Cranfield University in the UK.

"Airlines fly broadly similar aircraft, they pay similar prices for fuel, the same prices for landing, overflight and computer reservation systems. The only variable they can influence is labour costs," he says. Staffing costs typically account for between 25 per cent and 35 per cent of operating costs.

Prof Doganis, who served as chairman of Olympic Airways for 14 months before being dismissed earlier this year by the Greek government, says airlines can cut labour costs without substantially changing the way they do business.

"You can freeze wages, reduce staff numbers and change working conditions such as the number of hours pilots can fly and how many rest days they have," he says. "But once you've exhausted what you can do with your own staff, you can go further and start contracting out, seeing if anyone else can do it more cheaply."

Contracting out airline activities is a well-established feature of the industry. It is common for carriers to pay outside caterers to feed their passengers. Many airlines rely on other carriers or specialised companies to handle their baggage, check in their passengers at foreign airports and service their aircraft. And Singapore Airlines has some of its accounting work done in China.

BA has been an enthusiastic practitioner of one of the most radical forms of contracting out: getting other airlines to fly under its name. The company has nine franchisees, independent airlines with aircraft painted in BA colours and staff wearing BA uniforms.

Most of the airlines BA has franchised to fly in its colours are British: last month the company reached agreement with British Mediterranean Airways, a UK-based carrier, to fly in BA colours to Beirut, Amman and Damascus in the Middle East. But there is also a Danish franchisee and one in South Africa.

These franchise arrangements produced £50m in revenues for BA last year. Mr Ayling said yesterday he wanted to see this figure doubled.

In other areas of contracting out, he is proceeding cautiously, allowing in-house staff to try to get their costs down to the level at which an outsider contractor could do the job. Mr Ayling says that a year ago BA reached agreement with the unions representing the ramp workers who refuel aircraft and load baggage that they would reduce their costs to the point where they were competitive with outside suppliers.

Another department which has been placed under pressure is passenger revenue accounting, which is responsible for processing tickets after passengers have boarded the aircraft. Mr Ayling says BA is unusual in doing this work in its home country.

American's ticket processing is done in the Caribbean. Swissair's is done in India. "You might say BA has been a bit slow here," says Mr Ayling.

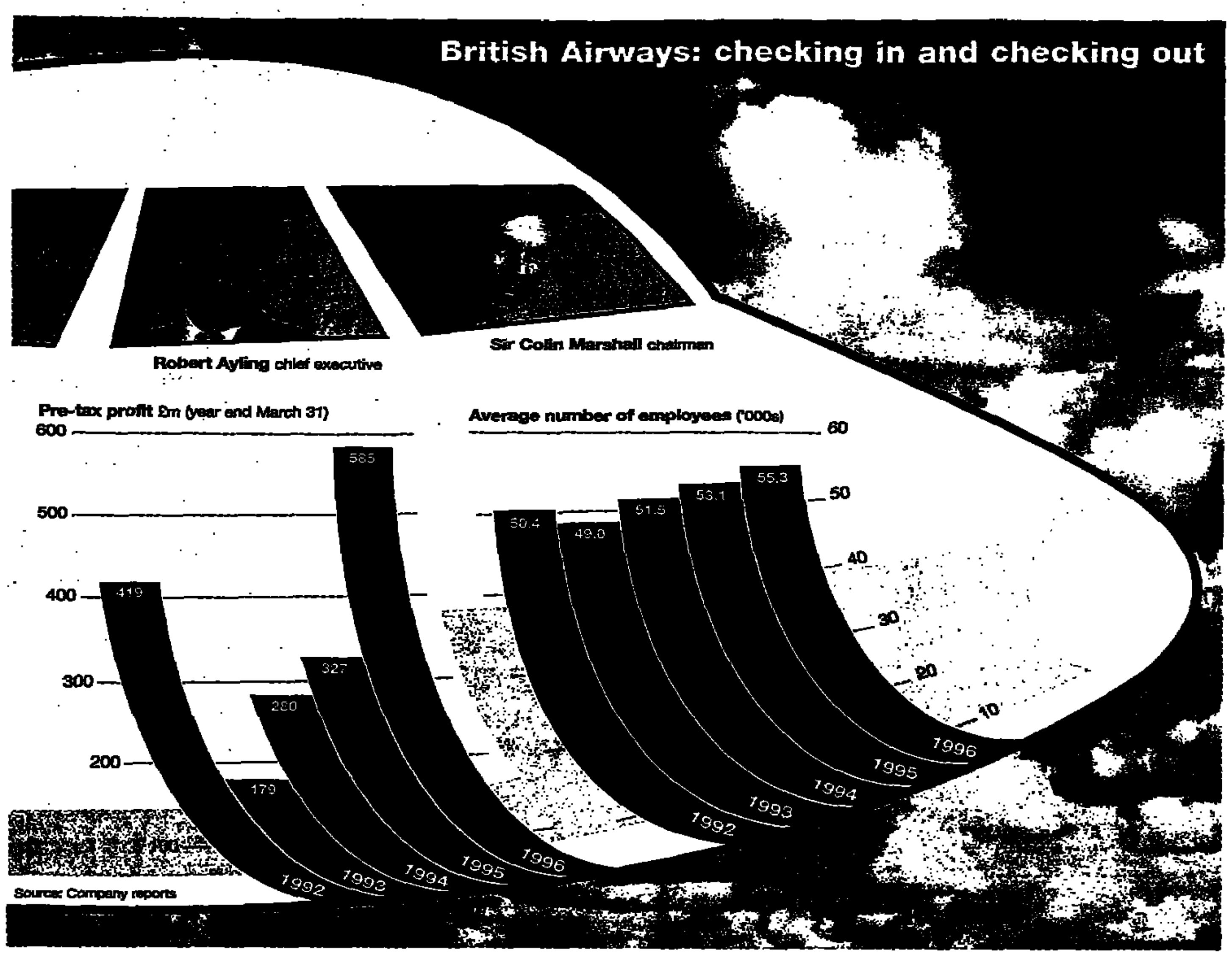
BA already employs a group of graduates in Delhi to correct computer errors which appear on its booking system. It has also set up an operation in Bombay to do some ticketing work and they could eventually take over the rest of it. Some of BA's computing programming will be put out to contract rather than done in-house.

Mr Ayling says the airline would not seek to cut costs to market levels in all cases. BA cabin crew had to have a higher level of expertise in foreign languages, for example, than flight attendants working for charter airlines. The company would have to accept that it had to pay more for certain highly skilled staff.

All of this adds up to a much less threatening package than some staff had feared. This is probably because the airline is taking action well before it needs to. Unlike companies which cut costs when financial disaster strikes, BA has decided to begin the process when its aircraft are full and it is making record profits. This means it has time to consider how best to cut costs.

"It's good management to take action when you are performing well," Mr Ayling says. "If we as managers can foresee that we can't carry on as we are, we should start doing something about it now and not in three years time."

BA had in the past been criticised for being short-term in its outlook, says Mr Ayling. It is not a mistake he plans to repeat.



· O B S E R V E R ·

Possibly the finest

■ Poul Svanholm is no fan of faddish investment practices and trendy management theories. He reckons their contribution to business success is just about zilch.

He should know. After 25 years as chief executive of Carlsberg, the Danish brewery group, Svanholm can bask in the kind of success many might envy.

Svanholm – who is stepping down at the end of this year – was this week in reflective mood, pondering the subject he knows best, brewing. At a Copenhagen business lunch on Tuesday he mused that "we at Carlsberg do not like to sound as if we are boasting." But...

In 1970, Carlsberg annually brewed about 6m hectolitres of beer, of which a third was exported. Today, the figure is 32m htl, brewed by 58 breweries in 40 countries; 80 per cent of it is drunk outside Denmark. In a quarter of a century Svanholm has thus steered Carlsberg from being a small, if well-known, brewery to being, he says, the eighth largest in the world.

And at a time when business discipline is held to go hand-in-glove with shareholder pressure, Svanholm is very happy not to have to worry about share prices. For Carlsberg is owned by a foundation, whose statutes rule that it must always own at least 51 per cent of the stock. Bids, hostile or otherwise, are not on the agenda, and a good thing too says Svanholm – his management can concentrate more on long-term objectives. It would be a bold analyst who denied that Carlsberg has been badly served by its statutes.

As for management theories, Svanholm has seen dozens of them – "for the most part useless" – come and go.

Squeeze the pore

■ To wrench an old adage – when Japan gets nose cleansers, the rest of the world starts inspecting its pores.

Having tried Chinese seaweed to cut their calories, Japanese women are now nursing their noses with new peel-off "cosmetic pads", the country's latest beauty fad.

The demand for nose-pore cleansers is unexpectedly strong, says Kao, Japan's largest toiletry company. Sales in the local nose pack market are expected to more than double this year 1995's Y5bn. Even Kao is staggered – such growth is twice what was forecast.

Kao's new cleanser, the product of 20 years' research, comes in the form of a sticky tape, which when applied to the nose unclogs the pores. Traditional applications – such as mud and gel packs – apparently don't entirely unclog nasal pores. Kao says that what attracts buyers to its tape "is that you can actually see the product working – you see the grime from your pores stuck onto the tape."

Will this new craze prove long-lived? The outlook isn't exactly promising. In Japan, at any one time about 30 per cent of cosmetics on sale are newly introduced products.

It could easily, well, nose-dive.

Costly peanuts

■ Want to party with Arnold Schwarzwenegger? Perhaps something a little more constructive, like helping former President Jimmy Carter and wife Rosalynn build a home for a low-income family high up in the Appalachians.

Well, check out your frequent-flier account with US carrier Northwest and turn up on September 27 at Sotheby's New York for their DreamPerks auction, said to be the first accepting air miles.

The event is in aid of Habitat for Humanity International, which rebuilds houses in poor communities; Northwest will donate proceeds raised from anyone ready to pay 5 cents apiece to buy extra air miles before the auction.

There are 34 lots coming under the hammer of auctioneer David Redden, ranging from the chance to carry the hammer and nails for Carter (auction estimate 300,000 air miles) to a night on the tiles with Arnie (a rather puny 200,000 miles). Alternatively, you can play with the Harlem Globetrotters basketball stars, or even board a jet fighter for a dogfight over California – no flying experience required.

The only party poopers appear to be Sotheby's. They will get a fee from Northwest and an unspecified commission on the sale – none of it going to charity. Perhaps some gentle Schwarzwenegger persuasion might change their mind.

Tell me another

■ Good to find a machine with manners. In the US recently Observer tried using an internationally-recognised credit card to get some cash from an ATM. Shove in the card, tap the PIN number, and hey presto! Out comes . . . nothing but the following message: "Hi! We haven't heard from you for a while. So just for your own protection we are not proceeding with this transaction. Please consult your bank."

Only in America.

The Financial Times

100 years ago

The Secret of Civilisation
At the Liverpool meeting of the British Association last night, Dr. William Newton read a short paper on "Nitrates", in which the nature of the fertiliser and the methods of its extraction were described. The particulars given were more or less elementary and familiar, but there is one sentence which really must be quoted as throwing an entirely new light on the subject:- "The knowledge of the utilisation of nitrate in the manufacture of explosives is the power behind civilisation which is for ever a guarantee that civilised States shall never again go down before a horde of barbarians, as did the Roman Empire under the Goths and Huns." It is rather startling to discover that our boasted civilisation is based upon nitrate of soda.

50 years ago

Franco-Argentinian Pact
Good news in the international field has a scarcity value nowadays. For that reason 17th September, 1946, deserves long to be remembered as the date of two welcome events: the conclusion of financial and trade agreements with the Argentine and France. Both are characterised by the same spirit of give-and-take after prolonged hard bargaining.

FINANCIAL TIMES
Thursday September 19 1996

Beef crisis may lead EU to breach export limits

By Caroline Southey in Brussels

The European Union risks breaching internationally agreed beef export limits because of falling European demand sparked six months ago by fears over BSE, or mad cow disease.

The position could sharply increase pressure for radical reform of the Common Agricultural Policy aimed at curbing beef production. The warning is spelt out by the Irish presidency in a paper prepared for EU farm ministers who are to meet early next week at Killarney, Ireland.

The presidency warns that over-shooting the limits set under the General Agreement on Tariffs and Trade can only be avoided if farm policy is overhauled to curb beef production dramatically.

The EU is expected to produce 720,000 tonnes of surplus beef this year following an 11 per cent fall in consumption because of fears over BSE (bovine spongiform encephalopathy).

The EU's ability to contain over-production could be further undermined if Britain decides today to abandon a pledge for a wholesale cull of 125,000 cattle as part of its anti-BSE strategy. The current British cull of animals over 30 months of age combined with the contested selective cull was expected to reduce EU beef production by 3 per cent a year.

The European Commission yesterday agreed to study in detail a recent report from Oxford scientists which predicted that mad cow disease would die out by 2001.

The Irish presidency predicts that the EU faces the prospect of being unable to sell its surplus beef stocks because the EU beef market is unlikely to be restored to pre-BSE levels in the foreseeable future while export opportunities are constrained by the Gatt, the forum for world trade negotiations before the setting up of the World Trade Organisation. It limits EU exports of beef to 1.7m tonnes in 1996-97.

"The EU looked set to cope with Gatt restrictions without significant adjustments to policy. However, this view has to be substantially revised in the light of developments following the BSE crisis," according to the Irish paper.

Commission officials warned that the extent of the reform would be driven by the fate of proposals to cut production immediately. EU farm ministers this week backed plans set out by Mr Franz Fischler, European commissioner for agriculture, to curb the beef supply by slaughtering EU calves and taking more surplus stocks off the market. But the majority rejected Mr Fischler's proposal that the measures had to be paid for by cutting aid to arable farmers.

Lack of EU vision, Page 2

Manila warned to resist curbs on mining

By Edward Luce in Manila

Twenty of the world's leading mining companies have told the Philippine government to resist pressure from domestic environmental groups to rewrite the country's mining investment code.

The companies say in a written submission that the government's commitment to develop the country's vast gold and copper reserves would be jeopardised if it acceded to the green lobby and "sensationalist" media pressure.

The Philippines is estimated to have the seventh largest gold reserves and 10th largest copper reserves in the world.

Manila opened the country's moribund mining sector to 100 per cent foreign ownership 12 months ago. But it has frozen all but two of the 70 foreign applications for exploration permits while it reviews the environmental impact of liberalisation.

The government decided to alter the mining code following public outrage this year after Marcopper, a local company 40 per cent owned by Placer Dome of Canada, leaked toxic "tailings" into the Boac river south of Manila.

Placer Dome, one of Canada's biggest mining companies, has since withdrawn from Marcopper.

Two foreign mining executives who were with Marcopper at the time have been charged with violating five separate environmental laws. If convicted they could face a jail term.

The case prompted widespread domestic debate on whether majority foreign ownership of mining companies should be permitted.

"The positive momentum generated [by the mining liberalisation a year ago] has been stalled," according to the submission, a copy of which was obtained by the Financial Times.

It was prepared by 20 leading mining companies, including Newmont Mining of the US and Western Mining Corporation of Australia. Both have applied for exploration licences in the Philippines.

"The significant progress and investment that has occurred over the last 18 months is in danger of being derailed," according to the document, which will be submitted to the government next week, the paper says.

It argues that the environmental provisions in the 1995 mining act which opened up the industry were "comparable with best practices worldwide" and expresses concern that the government is planning to modify the rules to the point of being "inappropriate and impractical".

SBC provision

Continued from Page 1

"veritable quantum leap" in provisions for its domestic problem loans. The bank used to treat these losses as extraordinary resulting in swings in annual provisions.

But it now feels it should calculate an expected default risk for its portfolio. This will result in an annual recurring charge of SFr600m initially.

To absorb any difference between actual annual provisions and the statistically expected loan losses, a general loan loss reserve of SFr2.4bn has been established.

The latest charges will reduce the group's Tier one capital from 8.9 per cent at the end of 1995 to around 7.7 per cent.

But the group has discussed the changes with bank regulators.

Olivetti

Continued from Page 1

of an extraordinary meeting being called. If Mr De Benedetti was reappointed then "those chances go up dramatically," Mr Shakerchi said.

Mr De Benedetti resigned after clashing with Mr Caio over strategy. He left the board but remained honorary chairman. The financial markets welcomed Mr De Benedetti's departure but the shares collapsed after Mr Renzo Francesconi, director-general of the Olivetti holding company, resigned a day later, complaining that Olivetti's half-year figures were worse than the published results. The company denied the claims.

Izetbegovic wins poll battle to chair Bosnia presidency

By Bruce Clark and Laura Silber in Sarajevo

Mr Alija Izetbegovic was yesterday elected Bosnia's head of state and immediately called for fresh polls in Bosnian-Serb territory.

The 71-year-old Mr Izetbegovic, president of Bosnia since the first free elections in 1990, narrowly won the race for the chairmanship of Bosnia's tripartite presidency – one Moslem, one Serb and one Croat.

He urged the Organisation for Security and Co-operation in Europe to repeat the poll in Republika Srpska, the Bosnian-Serb entity which, with the Moslem-Croat Federation, makes up Bosnia.

His call came as western mediators engaged in hectic behind-the-scenes manoeuvring aimed at building on last weekend's elections and setting up multi-ethnic institutions to govern the loosely united country.

"Many voters were deprived by artificial (and illegal) means of voting in the federation while the same artificial (and illegal) means were used to increase the number of Serbian voters," said Mr Izetbegovic.

But international officials, who hailed Bosnia's first post-war elections as "violence free" and "mostly positive", are likely to play down complaints of ballot-rigging and electoral engineering.

Total votes cast in Serb territory exceeded the registered number of voting-age Serbs according to the 1991 census. But the OSCE said more than half a million Moslem and Croat refugees had registered to vote in their former home districts.

In the nine months since the signing of the Dayton peace agreement to end the war, the commitment to the return of refugees has not been fulfilled – in particular in the Serb and Croat-held parts of Bosnia.

The Bosnian government yesterday warned that its own agreement to lay down arms was conditional on the Serbs agreeing to let Moslem refugees return to their homes. Only a handful of non-Serbs now live in Republika Srpska.

Early poll results for the parliaments of Bosnia and the Moslem-Croat Federation, and the president and assembly of Republika Srpska (Moslem-Croat) showed nationalist parties with a strong lead over moderate opposition parties.

Bosnia's presidency must govern by consensus and western mediators hope Bosnian Serb leaders – and their Croat nationalist counterparts, will abandon separatist demands.

Mr Izetbegovic won 729,304 votes, edging out Mr Momcilo Krajisnik, the Bosnian Serb candidate with 690,373.

Since 1990, Mr Krajisnik has been the right-hand man of Mr Radovan Karadzic, the former Bosnian Serb leader indicted for war crimes by the UN tribunal. Mr Kresimir Zubak was elected as the Bosnian Croat member of the presidency with 342,007 votes.

THE LEX COLUMN

Overhauling Olivetti

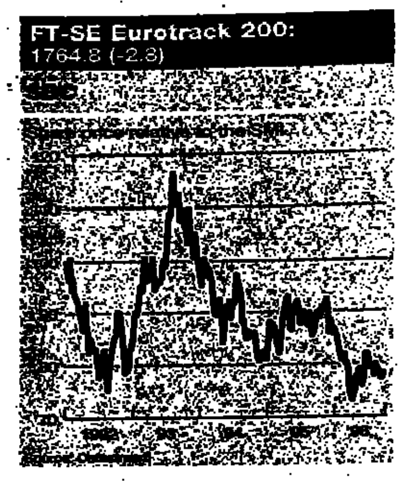
The board games at Olivetti continue. But investors, who must be wondering which set of rules the Italian electronics group is playing by, are no wiser than before.

The position of Mr Francesco Caio, the chief executive, had become untenable, since he is under investigation about the group's allegedly misleading half-year results. But the fact that his replacement, Mr Roberto Colaninno, is another close associate of Mr Carlo De Benedetti – the ousted chairman responsible for Olivetti's disastrous decline – is not reassuring.

Nor has pressure from Consob, the Italian market regulator, shed much more light on Olivetti's state of health. The group says it is unable to give an update on its debt levels and unwilling to discuss potential alliances or disposals. The little new information it has given is worrying. Total inventories at the end of June look high at nearly 10 per cent of turnover. The suspicion is that a lot of that could be outdated computers, whose value might have to be written down. There was also a L300bn ($197m) decrease in trade creditors, suggesting that suppliers are negotiating harsher payment terms.

Olivetti has potentially valuable businesses in telecoms, multimedia and office products. But to unlock that value, the group must produce a trustworthy set of results and deal with its loss-making personal computers division. To tackle those issues and restore even a measure of credibility will take a genuinely new management.

FT-SE Eurotrack 200:
1764.8 (-2.8)



SBC

The question is not whether the planned shake-up in Swiss Bank Corporation's barely-profitable domestic banking business is needed; it is whether SBC is going far enough. The planned 1,700 job losses add up to a markedly less aggressive rate of staff cutting than is under way at CS Holding. Moreover with SBC and CS both hard at work on their cost bases, UBS can hardly avoid doing the same. So much of the benefit may be competed away. In which case, SBC's modest hope that the domestic business can be cranked up to deliver an internationally unimpressive 10 per cent return – only just above its cost of equity – may prove optimistic.

Cost-cutting is not the only remedy on offer. But the promised new approach to corporate lending is hardly inspiring either; from now on, we are told, high-risk borrowers will have to pay more than low-risk ones. That this basic principle is regarded as exciting underlines how far banks like this have to go.

Moreover, the new systematic approach to provisioning is no more than a presentational step forward. Investors should ignore the essentially cosmetic increase in return on equity which will result. Still, the bank is right that using long-term average figures is more intellectually robust than the present *ad hoc* approach. And although some will doubtless worry that the average figures will be pitched too low, this should not be a problem if investors are given enough information, as they should be, on actual annual loan performance.

French budget

Realistically, there was never any doubt that yesterday's French budget would show the country meeting the Maastricht Treaty's 3 per cent deficit criterion next year. The only question was whether this would be achieved by fair means or foul. Mr Jean Arthuis, finance minister, was at pains to suggest the figures were *sans artifice*, but they are too ambitious to be credible.

For a start, the government believes the budget deficit this year will be 4 per cent of gross domestic product. Most forecasts suggest it will be closer to 4.3 per cent. This means the government will have to cut spending more aggressively than it is currently planning to hit the 1997 target. Similarly, the growth forecast of 2.8 per cent for next year looks too ambitious. Certainly, France's deficit-cutting efforts fall far short of Germany's determined efforts to address underlying structural problems.

Mr Arthuis appears to be salami-slicing, releasing the bad news in batches. Next week, for example, he will be forced to reveal a social security overspend of FFr30bn ($5.83bn) to FFr35bn, which will presumably require him to take back the FFr25bn net tax reduction he claimed to offer yesterday. There is also a suspicion that he will have to tighten further the fiscal ratchet with a supplementary budget in the first quarter. So far the markets have allowed their economic doubts to be trumped by the political might of the Kohl-Chirac axis. But Mr Arthuis cannot stretch their patience indefinitely.

British Airways

British Airways is deftly juggling two audiences with very different agendas. "BA for the new millennium", proudly unveiled yesterday, will have been greeted with relief by many employees. After all the scare stories, only 5,000 jobs are expected to go. But how, investors may reasonably ask, can this softly-softly message be reconciled with BA's promise of £1bn in annual "profit improvement"? True, this is not all supposed to come from cost-cutting. But even so, 5,000 job losses – only saving £160m or so – looks surprisingly low.

Moreover, for all the cautious wording of yesterday's statement, the long-term cost advantages of outsourcing – the opportunity to play off competing suppliers as well as an easy solution to high levels of unionisation – are powerful. And the process has a long way to go: in the end, an airline like BA could even choose not to fly its own aircraft. Of course the quality and reliability of contractors would have to be good enough to safeguard the airline's brand. But Marks & Spencer manages its reputation perfectly well without making its own food or clothes. Some will think this is just academic speculation, but in fact it is already happening on some routes where BA is franchising its brand using cheaper operators. Given the unions' power, the process will only encroach gradually. But ultimately, the "virtual airline" – little more than a marketing outfit – is surely a credible possibility.

Additional Lex comment on Next, Page 19

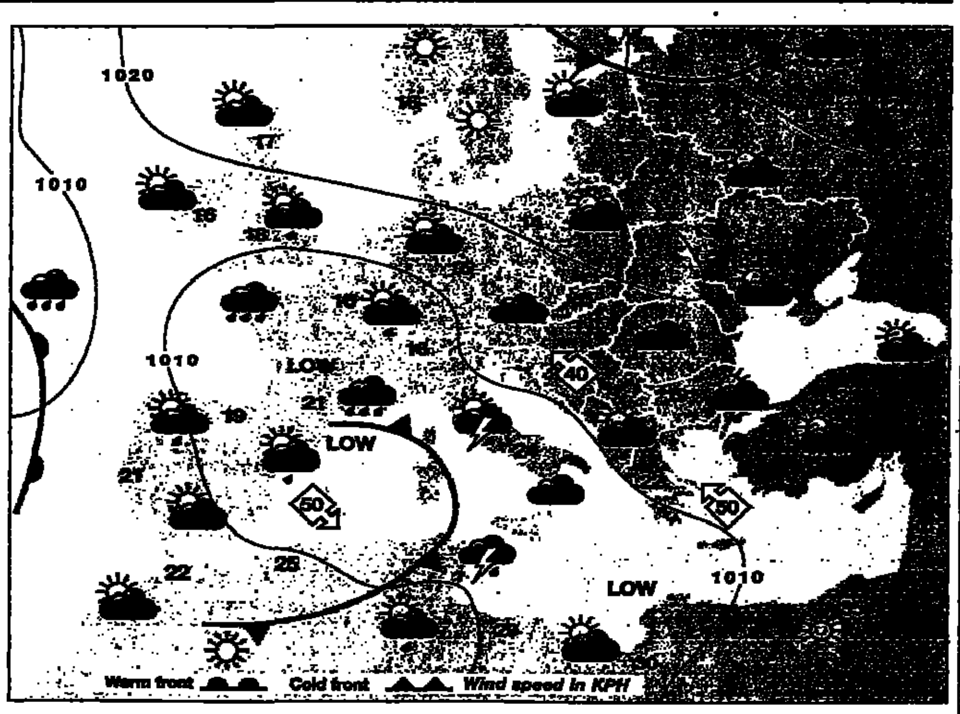
FT WEATHER GUIDE

Europe today

The Benelux will have sunny periods. There will be showers in Belgium and Luxemburg and an occasional shower in the south-west of the Netherlands. Northern Germany will be mainly dry with sunny periods but southern Germany will have showers. France will be mainly rainy although there will be sunny spells. Most of Spain will have sunny periods but northern Spain will have showers. Thunder showers are expected in central Italy. The west coast of the Balkans will have rain. Northern Greece will have showers but southern Greece will be fair. Turkey will have sunny periods.

Five-day forecast

A frontal system arriving from the Atlantic will cause rain over western Europe. The Balkans will have rain by the end of the weekend. High pressure will bring ample sunshine to Scandinavia. Russia will be sunny and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	sun 26	Caracas	fair 32	Faro	fair 23	Madrid	fair 22	Rangoon	rain 31
	Celsius	Belfast	fair 18	Cardiff	fair 18	Frankfurt	shower 17	Majorca	shower 23	Reykjavik	shower 14
Abu Dhabi	sun 37	Belgrade	fair 17	Casablanca	fair 22	Geneva	shower 16	Malta	sun 28	Rio	shower 23
Accra	cloudy 29	Berlin	fair 15	Chicago	fair 23	Gibraltar	fair 24	Manchester	fair 17	Rome	thund 24
Algiers	shower 25	Bermuda	shower 27	Cologne	shower 17	Glasgow	fair 17	Manila	rain 32	S. Frsco	sun 27
Amsterdam	fair 17	Bogota	thund 19	Dakar	fair 31	Hamburg	fair 16	Melbourne	rain 17	Seoul	sun 26
Athens	shower 26	Bombay	shower 30	Dallas	thund 31	Helsinki	fair 12	Mexico City	fair 22	Singapore	shower 31
Atlanta	sun 27	Brussels	shower 17	Delhi	thund 34	Hong Kong	fair 31	Miami	fair 33	Stockholm	fair 15
B. Aires	fair 23	Budapest	fair 18	Dubai	sun 36	Honolulu	fair 31	Milan	shower 16	Strasbourg	shower 19
B.ham	fair 18	C.hagen	fair 15	Dublin	fair 15	Istanbul	shower 21	Montreal	fair 19	Sydney	windy 26
Bangkok	shower 35	Cairo	sun 35	Dubrovnik	shower 21	Jakarta	cloudy 33	Moscow	shower 8	Tangier	fair 22
Barcelona	shower 23	Cape Town	fair 19	Edinburgh	fair 17	Jersey	shower 17	Munich	fair 17	Tel Aviv	sun 31
						Karachi	fair 33	Nairobi	fair 26	Tokyo	fair 28
						Kuwait	sun 42	Naples	thund 24	Toronto	fair 20
						L. Angeles	sun 28	Nassau	fair 33	Vancouver	fair 19
						Las Palmas	sun 27	New York	fair 23	Venice	shower 18
						Lima	cloudy 18	Nice	shower 21	Vienna	fair 15
						Lisbon	fair 23	Nicosia	sun 29	Warsaw	fair 13
						London	shower 18	Oslo	sun 16	Washington	sun 26
						Lux.bourg	shower 16	Paris	shower 16	Wellington	fair 12
						Lyon	shower 19	Perth	shower 19	Winnipeg	rain 21
						Madeira	fair 26	Prague	fair 15	Zurich	shower 17

PART 2

International TELECOMMUNICATIONS

Technology to speed the traffic flow over the global network is essential to prevent an overloaded system – and further communications advances – from grinding to a halt, says **Alan Cane**

Building blocks of the revolution

The convergence of computing and telecommunications called multimedia has been promised for the past quarter century. Now the promise seems ready to be fulfilled as a number of key technologies reach maturity.

Fibre optic cabling, for example, can already transmit phenomenal amounts of information. A single pair of fibres each the width of a human hair can transmit more than 10 million millions bits (binary digits) of information a second, equivalent to half a million simultaneous two-way high definition television channels. The only limitation is the speed of the optoelectronic equipment needed to handle the transmission at each end of the cable.

Personal computers run on chips with the power – and complexity – of a small mainframe, sparking arguments over the terminal device for the home and office: a computer capable of behaving like a television or vice-versa.

Wireless technologies will make possible telephone calls from any two points on the earth's surface via a galaxy of satellites to be launched shortly by groups including Iridium and ICO.

The explosive growth of the Internet – about 50m subscribers now could rise to 500m by 2000 – and of multimedia services in general is the outward evidence of this convergence. But the speed of its development has taken the world's telecoms operators by surprise.

The global telecoms network was never intended to support such traffic. It was engineered for an era when customers lifted the receiver of their handset, spoke briefly and replaced it.

Now Internet customers may hog international lines for hours at a time. Telecommuters working from home or from telecottages demand rapid transmission of data along lines never intended for such a purpose. The transmission of high fidelity sound, moving pictures and colour images makes sudden, huge demands on network resources.

Internet users, exasperated by an inability to make connections and by sluggish response times, are keenly aware that the Internet is overstretched. Telecoms experts are gloomier. The entire global network is close to collapse, they say.

The danger this represents for the global business community and for, for example, World Trade Organisation hopes of establishing a global economy underpinned by telecoms is underlined by a survey carried out by the Gallup opinion research organisation for British Telecommunication and MCI, published today.*

It shows that nine out of 10 senior executives from the world's largest companies are convinced that telecoms will become more important to their organisations's expansion plans over the next five years.

Overall, respondents to the survey said the critical factors for global expansion were, in order of importance, political stability, a skilled workforce and an efficient telecoms infrastructure, relegating cost of capital and availability of raw materials to the bottom of the list.

Reliable voice and data transmission were top of their lists telecoms but they complained that these needs were not being met. The strategic director of a UK-based mining and photochemical company said there was a need for "upgrading of speed and the quality of transmission of data."

The manager of a food manufacturing operation in Singapore wanted improvements in "videoconferencing, speed of data transfer internationally and international mobile telecoms" while a senior executive of a French multinational corporation complained of "the quality of phone lines."

The way out of the dilemma of expanding demand for telecoms services through an overburdened network is expected to be the adoption of a technology. Asynchronous Transfer Mode, at present owned principally by a small group of suppliers – Newbridge Networks, Stratacom, Cisco and Nortel among them.

"ATM [for a full explanation of this technology see the article on page 21] is ideal for a wide range of applications, including data communications, voice, imaging, full-motion video and multimedia," says the consultancy Price Waterhouse. "Many industry observers predict that ATM will be the main carrier technology for such broadband services. Its characteristics, particularly scaleability, make it ideal for the traffic demands such as multimedia expected on data networks in the future."

The fact remains that, as the International Telecommunications Union points out, nobody can predict which multimedia services will prove successful and which will flop. Business, however, is likely to make the biggest demands initially on the network. The ITU says: "There are several generic services that are applicable to a range of businesses including videoconferencing and electronic messaging. In the past, they have been highly sensitive to transmission costs and capacity constraints, a problem which new technologies seek to eliminate."

The large operators are just beginning to install the first ATM systems. According to Dr Terry Matthews, chairman of Newbridge, "the window has opened". Operators will install ATM systems first to increase the capacity of their business networks and gradually move the technology into the public switching arena.

Commercial ATM services are already available in the US from the regional operators, GTE and more recent competitors. Hong Kong Telecom, Singapore Telecom, BT and Telefonica, among others, are conducting ATM trials.

In the UK, the Integrated Communications Network, a private network set up co-operatively by London's six cable operators, Bell Cable-Media, Cable London, Nynex CableComms, The cable Corporation, TeleWest and Videotron have announced what is claimed to be Britain's first wide area ATM network.

David Venn, ICN managing director, says he believes ATM equipment prices have fallen to reasonable levels: "These developments coincide with the business community's increasing requirement to run band width-hungry (high capacity) applications . . . ATM will be the basic switching platform for private networks as the new century approaches and, ultimately, extend into the public domain too."

Conversion of the global telecoms network to ATM will be a mammoth task. But the experts are convinced that it will have to be undertaken and swiftly too if the greatest communications revolution in history is not to grind to a halt.

* *The BT/MCI Global Communications Report 1996/97*

IN THIS SURVEY

Editorial production: Sarah Murray
Graphics: Steve Bernard

■ **Intelligent networks:** by Philip Manchester

Opening the door to services

Linking telecoms with digital networks can give suppliers a competitive edge

The convergence of telecommunications and digital computers has always been rich ground for innovation. Digital processing brings a kind of "intelligence" to telecommunications networks – opening the door to types of service that were previously impossible to provide.

Calling cards – with which telephone subscribers can bill calls to their own telephone bill – are one example of this. Large-scale virtual private networks (VPNs) – where international corporations outsource their long-haul network traffic – are another.

Intelligent networks make these and other innovative services possible, and promise to take the conventional telephone system into a new era – both for consumers and for business.

In public networking, applications such as freephone services, call screening, custom billing and televoting work on the back of intelligent networks. In business, call distribution, customer call centres and mobile telephone networks use the same technology.

There are two driving forces behind the spread of intelligent networks: the demand for new applications and the changes in the structure of the telecommunications market.

Research by management and technology consultancy firm Booz, Allen & Hamilton forecasts an annual growth of 27 per cent in the demand for telecommunications applications which have intelligent networks at their centre.

Booz, Allen & Hamilton also puts the current global market for intelligent networks at $9 billion. The demand is particularly high for applications that can improve customer service and maintain competitive pressure, including call distribution, mobile telecommunications and customer-response call centres.

The demand for new services has also put pressure on telecommunications suppliers. They must be able to deliver innovation quickly to keep ahead of their rivals.

A decade of deregulation and internationalisation of the telecommunications market has forced suppliers to look beyond conventional services for future revenues.

The days when a telecommunications supplier could survive simply by renting out "a big pipe" are gone. They must now offer value-added services – at competitive prices – to maintain their market share. The replacement of the traditional analogue network by digital communications has presented them with the opportunity to do this.

Digital communications makes it possible to "program" a telecommunications network to meet the demand for additional services.

"Intelligent networks have come at a time of fundamental change in telecommunications," says Huw Hampson-Jones, general manager of Siemens Nixdorf's telecommunications operation. "There are all sorts of factors, such as the globalisation of domestic services and the domestication of global services. Telecom carriers cannot just offer domestic services any more. They have to find ways to keep their margins up."

According to Mr Hampson-Jones, suppliers are faced with, for example, having to supply VPNs to large corporations that can negotiate volume discounts. They cannot keep the margins up because of the competition, so they need to find other ways of getting revenue out of the network. Intelligent networks is one way of doing this.

"With intelligent networks, it is possible to offer special telecommunications services to small companies and to domestic telephone users. While the traffic volumes will not be as high as with larger corporations, suppliers can keep their margins up if they can exploit the technology before their rivals."

Huw Hampson-Jones: 'A time of fundamental change'

According to Mr Hampson-Jones, two approaches to intelligent networking present themselves: "There is an interesting dilemma when it comes to deciding exactly where to put the intelligence in a network. One approach is to put it into the switching technology. The other – which we advocate because it is better from the IT point of view – is to put the intelligence in another computer attached to the switch."

Intelligent network services rely on a high content of information technology to support them. Processes to identify callers and bill them properly, for example, must have access to very large databases, and the software and hardware technology has to be well advanced.

"Intelligent networks need a lot of data and they must be able to access it quickly and accurately if the service is to appeal to the user," says Mr Hampson-Jones. "A conventional IT computer is a far more secure place to do this compared with a telecommunications switch."

Although enthusiastic about the projected growth of intelligent networks, Mr Hampson-Jones is cautious about the speed of development. "You can develop the services very quickly – in a matter of weeks. But there are potential pitfalls. You need the IT skills and an understanding of the market.

"On top of that you might need to approach billing in a different way. As more telecommunications suppliers emphasise intelligent networks, they must get used to the flexibility it brings. The billing package must follow suit."

Part of the answer lies in the integration of traditional computer applications with telephone systems – usually referred to as Computer Telephony Integration (CTI).

"CTI at the moment is about call centres. They can offer a service but do not have a direct correlation with customer databases. A lot of businesses want to take the next step and bring more integration between their call handling and data handling."

One example of this is the customer who phones an insurance company to arrange a motor-insurance policy and then wants to talk to someone about life insurance. The data from the first call cannot easily be transferred along with the caller – leading to repetition and inefficiency.

"We have recognised that being able to transfer the data at the same time as the telephone call is a step that many business want to take," Mr Hampson-Jones says.

Although such systems may not be available for a few years yet, they will be commonplace by the year 2005. Indeed, the possibilities of intelligent telecoms networks are no longer in doubt. It is merely a matter of how long it takes to crack some tough programming problems.

■ **Billing:** by Michael Dempsey

A new kind of criminal

Telephone fraud can be detected at an early stage by using new billing software

Even Scotland Yard can become a victim of crime. In March last year a computer hacker in the US ran rings around the famous London police headquarters. Exploiting the world of digital telephone exchanges to break into private branch exchange (PBX) at Scotland Yard via a computer modem, the hacker made international calls for free, using police lines.

To add insult to injury he apparently passed the access codes to other hackers. Scotland Yard refuses to disclose the extent of its losses from this enterprise. But UK telecoms industry analysts put the figure at about £1m.

The activities of computer hackers have received a lot of publicity. But telephone fraud is occurring in parallel with considerable evidence of organised criminal activity. One of the most effective places to build defences against this new breed of criminals is in the billing systems, the computer programs written to administer transactions across digital exchanges.

Mark Johnson, fraud systems business manager at UK consultancy Applied IT, says billing systems can be written to detect fraud at an early stage. "Real-time software, called hot billing, reduces levels of fraud."

But this type of billing software is expensive. Applied IT is launching a stand-alone fraud detection program, the Fraud Management System. Using the principle of rules written into the program FMS compares the patterns of different telephone accounts with the billing information typical of a fraudulent account. Depending on the size of the installation FMS costs from £100,000 to £200,000.

"We're looking for things like long duration international calls," Mr Johnson says. Once a fraudster has broken access codes to a company PBX these can be sold on to anyone who wants them. Mr Johnson claims that some UK companies have lost up to £250,000 through telecoms fraud in just one weekend.

Another form of telecoms fraud, subscription fraud, involves perpetrators signing up for a service with no intention to pay. Fraudsters present copies of utility bills that are accepted as confirmation of an address, obtain services and run up large bills with a non-existent name.

With older mobile phone networks, transmissions are not highly encrypted, permitting "cloning" to take place. When a cell phone makes a call, it sends out two bits of information to the network – the phone number of the party making the call and the identity of the piece of equipment being used. The network does a check before the call is allowed to continue, assessing whether these two numbers are a valid pair.

Because this exchange is transmitted over the airwaves it can be intercepted and downloaded into another cellular phone by fraudsters equipped with a scanning device, a laptop computer and cabling to duplicate the identity of the original call. A legitimate customer receives the bill.

The clones are sold to members of the public keen to get unlimited overseas calls for free for a limited period. "Under normal circumstances it takes a month for these calls to reach the customer's bill and the person buying the clone can make three or four months of international calls before he's cut off," says Mr Johnson.

For Mr Johnson the route to fraud is not critical. "If we're looking at stopping fraud through pattern analysis the criminal's motive is much the same regardless of method. FMS will cut him off before the legitimate customer gets the bill. What we're doing is setting a threshold on the fraud, which networks can live with as an operating cost."

With potentially disastrous customer relationship implications for mobile phone service providers, fraud is an issue that must be confronted. Cellular phone fraud is estimated to be costing US telecoms carriers more than $1.5m a day.

Failure to detect fraud by billing system analysis or other methods can lead to a severe bad debt problem. Much of what is described as bad debt is actually fraud. UK mobile phone operator Vodaphone, which has 2.55m subscribers, has spoken of losing £10m due to fraud over 1994/5. The level of cloning fraud is now down to £5m, Vodaphone says.

"Scrutiny of billings and logging calls is the name of the game. Any discrepancies or anomalies can instantly be recognised," a Vodaphone spokesman says. "By 1997 fraud losses there are expected to fall to 0.75 per cent of overall turnover, with the introduction of a personal identification number that already protects 500,000 users of older analogue phones."

Another big worry for the mobile phone industry is a lack of customer loyalty. Switching accounts from one service provider to another, an activity known as churn, is prolific. In the UK and Germany the annual churn rate is as high as 32 per cent.

Cincinnati Bell Information Services, or CBIS, processes 225m phone bills a year for telecoms operators such as AT&T Wireless Communications. Among product offerings from CBIS in ChurnAlert, a package of software from US telecoms group Coral Systems.

ChurnAlert analyses the kind of billing information that should detect a customer about to defect to a rival. "There are several key factors," says CBIS product manager Jo Ellen Andrew. "It scans a calling pattern to see if the user would get a better rate from being on another payment plan. It spots contract anniversaries, flagging when a 12-month signing-on period is coming to an end," she says. If a user has a high number of failed calls, ChurnAlert draws attention to the fact that this is likely to be a dissatisfied customer.

Few mobile phone customers would object to having their bill analysed if it allows the phone company to offer them a cheaper deal. For the operators it is a case of survival. Ms Andrew claims that up to 48 per cent of US mobile users are switching service providers every year. "You can be increasing your subscriber base at 40 per cent a year and still losing out."

■ **Call centres:** by Michael Dempsey

Marketing down the line

More and more companies are contracting out their telephone sales and support services

Goods and services worth about $600bn will be sold over the telephone every year in the US by 2000, according to the US Direct Marketing Association.

Most of this business will be handled by call centres, many of which will be physically distinct from the customer's operation and run on a contract basis by a third party. The Henley Centre, in the UK, estimates that more than 2m people will be employed in telemarketing worldwide by the end of the century.

Decisions Group is a £15m call-centre agency that provides support to Microsoft, the world's biggest software company. Japanese customers for Microsoft Network, an Internet access product, have their queries dealt with by a 100-strong Tokyo centre set up in May 1995 by Decisions Group.

Each phone operator works on a PC and talks through user problems on screen. High-technology companies are generating a huge amount of business for call-centre operators. Consumer demand for computer products requires a lot of technical support, which would be prohibitively expensive without the labour-saving attributes of the desktop PC.

Microsoft chose a variety of support partners for its network throughout the world. Decisions does not support Microsoft Network in North and South America, but it tries to ensure a consistent type of support across the globe for an international product, offering customers, in theory, the same level of support wherever they are.

There are still local differences, however. "Our call distribution is more advanced in Japan because we were setting up on a green-field site," says David Ronaldson, senior account manager at Decisions Group.

Dual Tone Multi Frequency, the international standard format that identifies the tones generated by a phone keypad, is more prevalent in Japan than in the UK, and Mr Ronaldson thinks DTMF can take a minute off the length of each telephone query, allowing each operator to handle more calls.

However, in Japan there is a formalised business etiquette to the phone query, with the operator expected to acknowledge most of the customers' comments. This may cancel out the time saved by DTMF technology.

Microsoft's vision of a wholly seamless international support operation is, therefore, not entirely practical. But the economics of call centres are sufficiently impressive to create a global demand from companies that crave the image of an open and friendly support operation. A 150-station international call centre from Decisions Group costs between £2m and £3m to set up, and the company says savings from outsourcing the operation should see that money recouped by the customer inside 12 months.

Decisions will sign a contract for as little as £5,000. Mr Ronaldson believes small deals can be useful test beds for large call centres. He used to work for the privatised UK utility Scottish Power, where telemarketing was under consideration.

"We ran a campaign to see if we could sell high-value electricity contracts over the phone," he says. "It had never been tried before. Everybody thought you had to put a large sales force out in the field. We found a variety of responses to telephone approaches to large corporates. The quality of the sales database was clearly a critical factor."

Joyiplast is a family-run firm that is one of the largest manufacturers of costume jewellery in Mexico. Over the century it moved from distribution via department stores to selling via franchises and then on to direct mail, backed up by extensive advertising and a customer database.

The advent of digital phone lines, run by private companies and not a state monopoly, allowed manager Jacobo Camhi Sevilla to move into telemarketing. Historically, outbound calling by Mexican businesses had been limited to debt collection by banks. Joyiplast signed up for a call-handling system from the US company EIS International.

The EIS product, Call Processing System, is an example of computers integrated with telephony. In this case EIS software is tied to Joyiplast's own inventory computer system. This means a company agent phoning out knows which goods are in stock and how long they will take to deliver.

The CPS software tells the database to throw up a certain number of calls. A mathematical measurement inherent in the system, known as a pacing algorithm, makes sure the number of calls made out by agents is manageable. When the target is called and picks up the phone the agent begins talking through his headset.

Agents work through a script generated by CPS and chosen to relate to this caller. So a customer who appears to have lost interest is reminded that he has not traded with the company for some time. Agents get all previous information on that prospect on screen. CPS prices range between $4,000 and $8,000 per agent.

Joyiplast has doubled the number of agents from eight to 16 inside 12 months and now makes 6,000 cold calls every day to selected demographic areas in Mexico City. The company claims a purchase rate of 200-400 people from this activity. Market research conducted during these calls is fed back into Joyiplast's customer database.

The emerging trend of predictive dialling is praised by Mr Camhi Sevilla as "the most cost-effective method of keeping in contact with and retaining existing customers as well as expanding the customer base".

Nick Velissarides, a marketing manager with Cable and Wireless-owned Mercury Communications, says the call centre is here to stay. The only question is how to implement it. "There are just two options: do you build it yourself or get someone else to do it for you?"

Mercury has seen its business in this field grow exponentially. In 1992 it turned over £500,000 running call centres; by this year that sum had grown to £30m. It has entered into an alliance with Racal to provide a voice-network and call-centre operation for the financial services group Norwich Union.

With a price tag of £35m over five years, this project illustrates why the telecoms industry will see more and more new players fighting for a place in the call-centre boom.

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Internet telephony: by Paul Taylor

Cyberspace threat not taken lightly

While calls on the Internet remain difficult, they are getting closer to mainstream usage

Less than 12 months ago most traditional telecoms carriers dismissed the threat of Internet telephony – making voice telephone calls over the Internet because of the poor speech quality, lack of standards and inconvenience of making calls over the Internet.

Most industry analysts and many of those promoting Internet telephony, still concede that voice communication over the Internet is not going to put the telephone companies out of business overnight. But several recent developments including dramatic improvements in Internet telephony software packages, mean that the threat posed by Internet telephony is being taken more seriously by traditional voice carriers.

Even before these advances, the prospect of cheap, even free, long-distance calls – excluding the cost of Internet access – lured hundreds of thousands of personal computer users to explore Internet telephony. An estimated 500,000 people have tried out some of the more than a dozen Internet telephony software packages enabling Internet users to speak to each other via the global computer network.

These users have had to put up with the many limitations of first generation Internet software that make a voice call over the Internet far more tricky than picking up the phone, and the results rarely as satisfactory.

The biggest problem with using early Internet phone software has been that both parties had to be logged on to the Internet to connect the call. Generally those with ordinary dial-up connections to the Internet could only make calls at pre-arranged times.

A second drawback has been the lack of standards. Different programs use different signal compression schemes and connection protocols so both parties needed to be using the same software, or programs using the same compression and connection methods, in order to communicate.

Another difficulty for users with dial-up access to the Internet, including most home computer users, has been that in order to link two computers via the Internet, it is necessary to know the Internet "address" of each computer. Unlike an e-mail address, which identifies a user, the address of a computer on the Internet – known as an IP address – is not always the same. In particular, many Internet access services assign new IP addresses to users each time they dial into the service.

Most Internet calls are therefore connected using a third computer, or server, that acts like a telephone exchange. The server matches names, rather than computer addresses, of registered users.

Finally, the quality of most Internet voice conversations is often poor and signal delays are almost inevitable in conversations because of the way data is transmitted across it in "packets" which are assembled and examined along the route by dozens of other computers and re-assembled at their destination.

These and other limitations meant that early Internet telephony has only appealed to the technophiles and to those such as university students in the US and new immigrants or expatriate workers who are far away from home. Indeed many people, including Bill Scheuster, chairman of PSI-Net, one of the world's largest Internet service providers, believes Internet telephony will remain a niche product appealing to only a relatively small percentage of users.

Similarly Forrester Research, the US-base technology consultancy, argued in a recent report that "while anything free is sure to gain a lot of attention, today's Internet telephony is just a hobby product like CB radio".

Not everyone agrees. And a number of recent developments could help move second generation Internet telephony products into the mainstream:

- Netscape Communications, the main supplier of Internet browser software, and Microsoft, the world's largest software group, have built telephony functions into their latest browsers. Netscape has bundled its "Cool Talk" conferencing facility into Navigator Web 3.0.
- VocalTec and IDT, two of the leading Internet telephony software product suppliers, have unveiled second generation products boasting many new features and improvements. For example VocalTec's Internet Phone for Windows 95 adds voice mail, caller identification and call waiting features to its software while IDT's Net2Phone product enables Internet users to call any telephone in the world from an ordinary PC for a fraction of the normal cost.

Net2Phone allows voice data to be carried over the Internet until it reaches IDT's US-based exchange where it is converted into a conventional telephone call ready to be received by any phone in the world. IDT charges 10 cents a minute for a call to anywhere in the US compared with the average $2-a-minute charged by international carriers.

Meanwhile, VocalTec launched a service called the Internet Telephone Gateway Server last month which goes a step further by enabling every telephone user, regardless of whether they own a PC or a special VocalTec Internet phone, to make and receive phone calls over the Internet.

- Microsoft and Intel, the US chip-maker, have teamed up to develop Internet telephony standards. In March more than 100 other companies including Cisco and Sprint agreed to standardise voice, video and data integration into the World Wide Web bringing the prospect of true inter-operability closer.

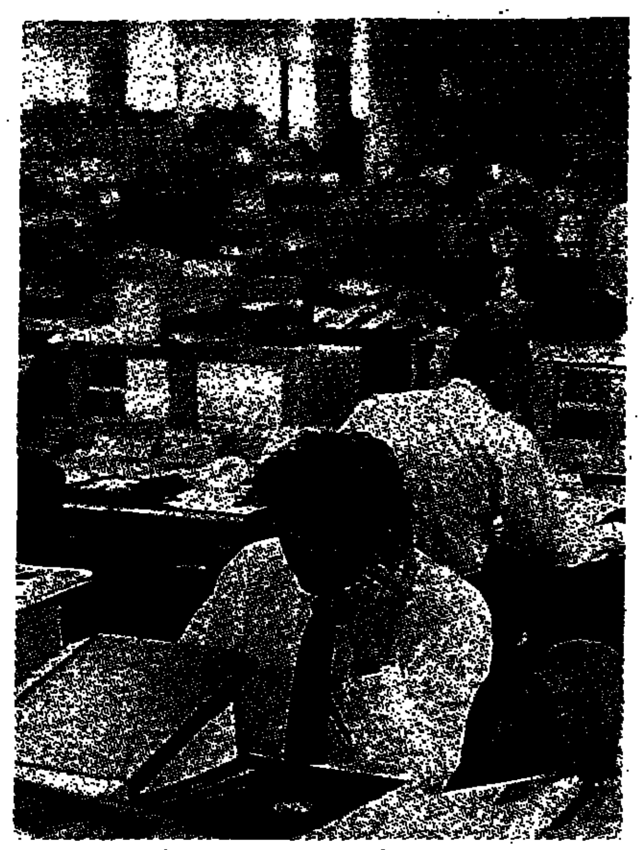
Meanwhile, despite its limitations, Internet telephony's growth has prompted concerns among some US companies. In March, the America's Carriers Telecommunications Association, which represents 130 long-distance telephone companies serving mostly small businesses, urged the Federal Communications Commission to regulate Internet telephone software suppliers as if they were telephone companies.

The association argues that Internet telephone software companies are competing unfairly in the long-distance market because they are not subject to the same FCC regulations that govern traditional long-distance carriers.

However, the deep divisions within the industry are also emerging. For example, the largest US telephone companies including AT&T, MCI and Sprint have distanced themselves from the ACTA's action because they see the development of Internet telephony as a potential business opportunity.

However, as analysts at Nikko Europe noted in a recent report on the impact of the Internet on telecoms company earnings streams, Internet telephony highlights the threat to traditional voice telephony pricing models based on distance and "the question as to whether telcos should counter this threat by acquiring Internet access companies".

At the very least many analysts believe the advent of Internet telephony will accelerate the pace of call price reduction, for business as well as individual users.



"Hello, is that cyberspace?" A number of recent dramatic improvements to voice made across the Internet have made this form of telephony a more viable prospect *Tony Andrews*

PROFILE **Alcatel**

A stronger mobile connection

After a year of intense activity chairman Serge Tchuruk's plan may be working

It is now almost a year since shares in Alcatel Alsthom plunged more than 12.5 per cent, following the announcement that the then ailing French giant of the telecoms equipment sector had suffered a first-half loss and needed restructuring to reverse its decline.

The subsequent 12 months have been tumultuous by any standard. The Paris-based company has:

- reported the largest full-year loss in France's corporate history;
- embarked on a root-and-branch reorganisation to cut costs, involving the centralisation of purchasing, the restructuring of its telecoms activities along product lines rather than old national structures, and a severe pruning of the number of companies in the group;
- started discussions with the UK's General Electric Company about merging their GEC Alsthom power-engineering and transport equipment joint venture with Framatome, the French state-controlled nuclear plant manufacturer;
- made public its interest in acquiring Thomson, France's defence and consumer electronics giant.

But, while the pace of change may have been unsettling both for investors and the company's nearly 200,000 staff, it looks like the action plan presided over by Serge Tchuruk, the group's chairman since mid-1995, may be starting to pay dividends.

Though group sales have continued to fall in the first half of 1996 to FFr74.3bn from FFr78.3bn a year earlier, turnover in the telecoms sector was up to FFr30.5bn from FFr29.1bn. This reversed the downward trend of 1995 when telecoms sales dropped below the FFr70bn mark. In a further encouraging sign, the group said its telecoms orders in the latest period were "particularly strong", advancing by more than 20 per cent.

While the profit implications of this upturn were not immediately apparent, the group confirmed earlier in the year it was looking to return to break-even in 1996. In 1995, the telecoms segment recorded a loss from operations before financing costs of FFr3.3bn. This included a FFr1.5bn non-recurring operating charge. The company said two-thirds of the decline stemmed from its network systems activities, with the market for network systems equipment marked by a severe drop in prices.

Part of Mr Tchuruk's strategy has been to diversify the group away from its core business of big public telephone exchanges – it remains the world's leading supplier of switching systems with an international market share, by its own estimate, of nearly 23 per cent – and into more profitable mobile phone and telecoms transmission equipment.

But as far as mobile is concerned, the company faces a challenge to keep pace with the industry leaders. Mr Tchuruk acknowledged earlier this year in an interview with Business Week that Alcatel would not be able to catch up with the likes of Ericsson and Motorola in the mobile sector. But he suggested the company could double its market share to 20 per cent "which is the average worldwide share of all our products".

The progress the company has made in the area has come to analysts' attention. "Alcatel has worked hard to redevelop the system and regain its reputation, effectively re-engineering its GSM systems and re-designing its handsets," said Morgan Stanley in a recent investment note. "We do not think Alcatel is too late to be a significant player in mobile communications."

To steer the group back to a good level of profitability by 1998, Alcatel's chairman has several other cards in his hand. The company retains a strong geographical presence in markets as different as France and China. Indeed, Mr Tchuruk has indicated that within a decade its China business would account for 10-12 per cent of global sales.

It is also expanding rapidly in other areas. In his address to this year's annual shareholders meeting in June, Mr Tchuruk singled out the acceleration of the company's presence in the US, saying sales of the group's telecoms subsidiary would pass $1bn this year, "thanks to the success achieved in transmission networks, against all its worldwide competitors".

Meanwhile, the company has weathered storms arising both from the corruption scandal that last year forced the departure of Pierre Suard, Mr Tchuruk's predecessor as chairman, and a separate legal wrangle concerning allegations of overbilling. This damaged relations with France Télécom, its principal client. Mr Tchuruk said in June he was "pleased with the atmosphere of confidence that has now been re-established with France Télécom".

David Owen

■ **SDH:** by George Black

System sets a high standard

SDH is becoming the industry norm as the networks catch on to its advantages

SDH (Synchronous Digital Hierarchy) has matured into a standard for high capacity transmission across most of the world.

Backed by the European Telecommunications Standards Institute (ETSI), the SDH infrastructure is being installed by network operators and large companies everywhere except in North America and Japan, where an offshoot of SDH known as Sonet is the standard.

Over the next five to 10 years SDH looks set to transform the telecoms industry by bringing very high reliability, resilience and flexibility to networks, as well as being able to handle much more traffic.

In the long term it should also reduce the costs and increase the profitability of the operators because networks will need less duplication and less maintenance.

"SDH is primarily about improving reliability," says Chris Lewis, principal analyst at Yankee Group Europe.

"If your road network is blocked up there is not much you can do about it, but if your telecommunications network is blocked up you can easily reconfigure it using SDH," says Dr Joseph Shapiro, corporate marketing vice-president for the SDH multiplexer manufacturer ECI Telecom.

For network operators, installing SDH is a necessary preliminary for supporting traffic which uses ATM (Asynchronous Transmission Mode), another emerging standard for high-speed networks. Together they can support the use of multimedia applications, mixing voice, video and data services.

SDH was designed to run at 155 megabits a second. This matches ATM in most cases, but SDH has already been boosted to 2.5 gigabits and is claimed to have the potential for 256 gigabits.

High capacity transmission: workers lay optical fibre. SDH can cope with volumes of traffic better

It is rapidly replacing older equipment based on the Plesiosynchronous Digital Hierarchy (PDH) standard in national networks. PDH is less able than SDH to support ATM and lacks its reconfigurability.

Most operators believe SDH is superior in delivering interoperability of systems and can cope with fast-rising volumes of traffic better. Unlike SDH, PDH never attained the status of an international standard.

SDH enables operators to manage networks from a central point. In the event of a failure it re-routes traffic automatically. It can be repaired quickly with software tools as it is remotely controlled.

Operators are installing it as fast as possible because it is potentially a competitive weapon, enabling them to provide better service and greater bandwidth. New operators, especially of mobile networks, are combining SDH fibre optic and radio systems to move into business more quickly.

Many operators have already installed SDH in their trunk routes and are extending it to local branches and users' points of access. Large companies are also starting to use SDH, rebuilding their networks to improve communications between sites.

Network operators worldwide have been investing heavily in SDH. By the year 2000 fully SDH networks are likely to be widespread.

Worldwide, Australia has probably been the most enthusiastic in taking up SDH and has done this through the national operator, Telstra. In Europe, Germany has spent the most on installing SDH, mainly because Deutsche Telekom has rushed to buy the equipment while it is still a state monopoly. After privatisation it would probably not have been able to justify to its investors such a large expenditure in such a short time but would have had to phase it in over a 10 to 15-year period.

In the UK, Energis, the network operated by the National Grid electricity supply company, is the largest user, having implemented SDH throughout its network as a greenfield site.

Alistair Henderson, the firm's head of network strategy, says that SDH's reliability has enabled it to provide service level agreements that guarantee the availability of network services for its customers.

These are mainly users which depend on very high availability, such as the BBC, Mirror Group newspapers and Thomas Cook travel agency.

British Telecommunications and Mercury have also been moving towards adopting SDH; BT has already implemented it to boost the reliability of its services to banks.

France Télécom still has more old coaxial cable than BT and is heavily reliant on PDH, but the need to follow the rest of the world in adopting ATM may force it to speed up its adoption of SDH.

Beyond Europe, SDH has been successful because many countries follow European telecoms standards. East European governments, particularly the Czech Republic, seeking to modernise their infrastructures, are looking to SDH as the basis for those programmes.

Likewise, the Chinese government is investing heavily in SDH as part of a bid to catch up with the industrialised nations in its communications. In the Middle East, Israel and Saudi Arabia are both firmly committed to using SDH.

As the demand side expands, the supply side may contract. Research and development costs have already far exceeded forecasts, partly because the manufacturers have had to shift their effort from hardware to software.

"Five years ago R&D on PDH was 90 per cent hardware. Today R&D on SDH is 70 to 80 per cent software," says Ian Taylor, a business manager for Alcatel Telecom, a leading SDH manufacturer.

With each enhancement to SDH, manufacturers need to add more to the hundreds of millions of pounds they have already invested. Some may well decide they cannot afford to go on alone, which may produce more mergers and partnerships.

Ericsson has to a great extent gone over to selling other manufacturers' products. Nortel (Northern Telecom) has decided to collaborate with former competitor DSC (Digital Switch Corporation).

Siemens, GPT (GEC-Plessey Telecom, in which Siemens has a controlling share) and Italtel have chosen to form an alliance to develop new SDH products. Even Lucent Technologies (formerly belonging to AT&T) does not provide complete systems by itself but has enlisted partners such as the radio and satellite specialist Nera.

SDH and Sonet are not compatible within the same network, but SDH and Sonet networks should be fairly easy to connect. Bernie Jarvis, director of strategy for public networks at GPT, says that a limited amount of interworking between SDH and Sonet is already possible. This will increase steadily as operators and the International Telecommunications Union work on interoperability.

PROFILE Siemens

Armed with a powerful asset

One highly profitable asset – a digital switching system – is what drives the public telecoms division of Siemens, Germany's second largest industrial group, and one of the few German companies with world market leadership in a number of cutting-edge technologies.This asset cross-subsidises a variety of other activities in the same division.

In terms of public telecoms products, Siemens and its subsidiaries is among the world's top three producers along with Alcatel and Lucent.

It claims to be market leader in sub-segments such as narrow band technology – the networking technology used in ordinary telephony – where its EWSD digital system is its cash cow. EWSD is used by 283 telecoms operators in 86 countries, with 110m connections. Most of these, about 32m, are inside Germany, followed by China and the US. Siemens' technology is also the market leader in eastern Europe.

Until the 1970s, Siemens telecoms was merely the in-house supplier of the Bundespost, the former German telephone monopoly. But from a rate of 40 per cent in 1979/80, the division's foreign market share should reach 70 per cent this year, and this is forecast to go to 80 per cent in three years.

In telecoms networks based on Synchronous Digital Hierarchy (SDH) – an international digital transmission standard introduced three years ago – Siemens claims to hold a market share of 32 per cent, ahead of Alcatel at 21 per cent.

As well as traditional narrow-band technology, the wide spectrum of activities in the public telecoms division includes:

- Access networks, which are networks connecting the end-user and the telephone network;
- Broadband technology for the transmission of large amounts data such as those used in multimedia;
- Transport networks, for transmission between switching stations;
- Intelligent networks, allowing telephone operators to offer special services such as freephone;
- Network management, offering administrative services;
- Network engineering, which provides turnkey solutions for complete telecoms systems;
- Cables; and
- Mobile networks.

In mobile networks Siemens once lagged behind the competition. "Siemens has made mistakes in this business area," says one analyst, who points to mobile telephone stations as an area that the company was slow to develop. "They failed to bring a base station to market in time."

Siemens claims that its technology in mobile telecoms has made much progress since, and that one third of all users of the Global System for Mobile Communications (GSM) standard, the predominant digital standard in Europe, route their calls via Siemens' base stations.

The profileration of telecoms services, and the demand for more custom-made services is also driving sales of an increasing number of products and services.

Siemens' Telecoms Management Network and the Intelligent Networks units supply technologies allowing phone companies to offer customised services, such as freephones, universal numbers (where national calls are charged at special rates), virtual private networks and internal corporate communication systems, which use public networks but behave as though they were private.

Increasing use of the Internet is also leading to new technologies. Siemens is developing a telephony system allowing users to communicate via the Internet, a system already on the market, but with quality as yet not comparable to that of standard voice telephony.

Another division in this complex web of businesses is the cable manufacturing. Siemens is Germany's only representative in this area.

From its conservative days in the 1970s and 1980s, Siemens now has a solid portfolio of electrical and electro-mechanical divisions, and is at last promising improved earnings.

But despite its technological potential, the public telecoms business is not a star financial performer for Siemens, although its performance has been ahead of that of Alcatel, its main European competitor in many segments of the market. Triggered by weakness in domestic business, the public telecoms division's turnover was only DM10.4bn to end-September 1995, a fall of 19 per cent from the previous year.

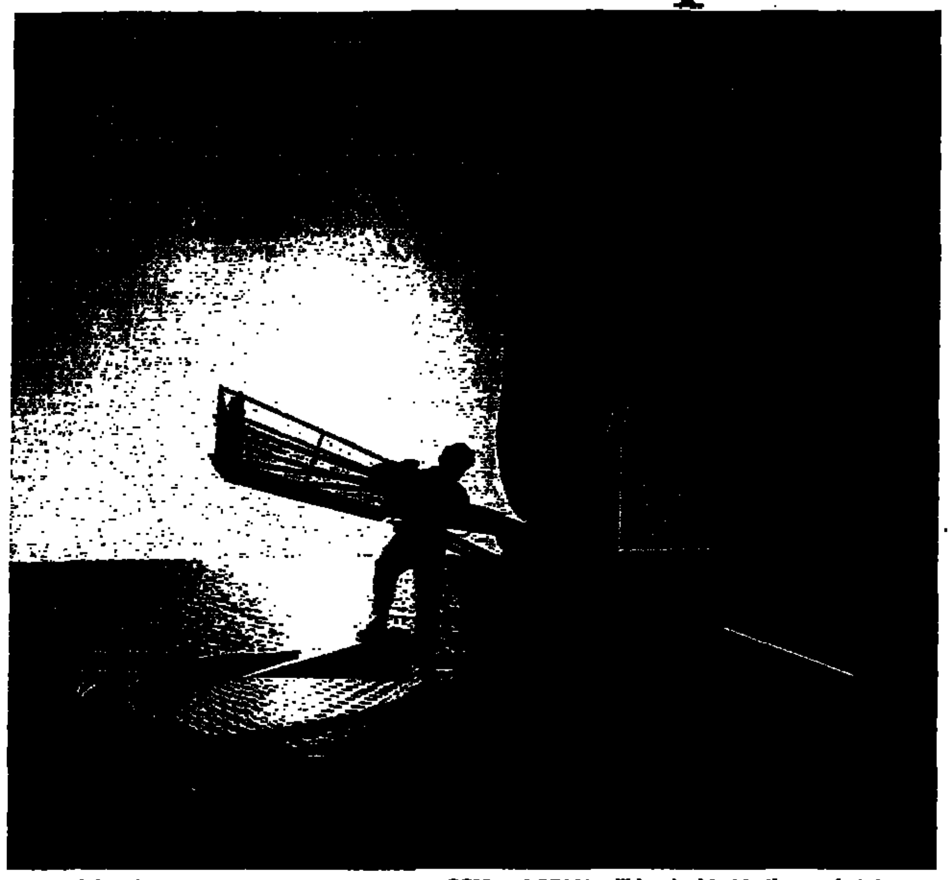
Turnover has since recovered and profitability is rising. Analysts forecast that the division's profit contribution of DM206m last year may go up to DM250m this year, and then to DM300m in 1997.

Wolfgang Münchau

■ GSM/CDMA: by Tom Foremski

Lines are drawn in phone wars

Telecoms companies must choose which digital system to use



Battle of the airwaves: the competition between GSM and CDMA will be decided in the marketplace

When it comes to discussion of which digital cellular phone technology is best, the debate quickly develops the flavour of a religious war. Zealots on opposing sides deride each other and try to justify their own huge investments in their choice of technology.

Over the next few years, wireless telecoms companies around the world will choose between two of the main digital wireless cellular phone technologies.

The contest is between the US-developed Code Division Multiple Access (CDMA) technology and the European-developed Global System for Mobile Communications (GSM). Both technologies aim to replace the analog-based cellular phone systems with a digital service that can deliver data as well as voice and offer more capacity for phone calls and users.

CDMA was developed by California-based Qualcomm and offers several advantages over GSM. CDMA, however, has yet to prove its claims of superior performance and capabilities, while GSM is an established technology with a large base of equipment providers. CDMA equipment is still difficult to find and the technology has yet to make a successful transition from the lab to the real world.

For many companies investing hundreds of millions of dollars in setting up digital phone networks, the issue is one of betting a large amount of money on a potentially superior technology or taking their place in the market quickly with an established technology.

Many US companies are facing this problem in their bid to set up regional and national personal communications service (PCS) networks. After paying the US government more than $10bn for PCS network licences, US companies are faced with the difficult decision of reaching the market first with a GSM service or betting that CDMA will work as advertised and help them eventually to carry larger numbers of users.

Qualcomm originally claimed that CDMA would offer as much as 40 times the capacity of analog cellular systems, while GSM has about three to four times more capacity than analog systems.

But over the past few years, the CDMA claims have been revised and data collected from field trials indicate that CDMA could offer about six to seven times the capacity of analog cellular. This would narrow the gap between CDMA and GSM.

CDMA offers the US PCS industry the best investment for the long term because of its higher capacity, better sound quality and lower power consumption, but it could take two years to deploy commercial CDMA-based PCS systems. That is a long time to keep millions of dollars tied up for PCS licences without having any revenue coming in.

The GSM-based PCS system is called PCS-1900 in the US. This system allows companies to move into the market more quickly, possibly within a year, and thus start generating revenues and building market share before their competition.

GSM also has the advantage of communications equipment that is cheaper than CDMA's because of higher manufacturing volumes.

In contrast, CDMA equipment is still in its first generation. It will take some time for it to develop the same economies of scale.

The development of CDMA chips for cellular phones has also lagged, while there is much more support for GSM in terms of chips, software and operating experience.

US market research firm Giga Information estimated the chip content of a CDMA phone cost $90 at the end of 1995. This compared with about $60 for GSM phones. CDMA chip prices are certain to drop over the next few years, but so will the price of GSM chips. Giga believes that CDMA chips will still cost more than GSM chips.

Some of the largest US companies have chosen CDMA for their PCS networks. They represent about half the potential market when measured by possible end-users. The rest have chosen GSM or a variation of GSM.

The first GSM network in the US was activated in the Washington DC area in November 1995. Several other GSM networks are now online.

The California-based Pacific Bell Mobile had a GSM network in San Diego in time for the recent Republican party convention. This gave the company a good publicity opportunity when it offered Republican delegates free phones.

Other US companies are betting their money on CDMA. GTE of the US has begun a customer trial in Austin, Texas, and plans to roll out a commercial CDMA network in San Jose, California, and other markets in 1997.

"CDMA is the digital standard that will ultimately best support our customers with future wireless applications," says Ron Grawert, executive vice-president of operations for GTE's wireless business.

He listed CDMA's advantages over other digital standards as improved, static-free voice transmission, greater conversation privacy, longer battery life, and a decreased possibility for fraudulent use of the cellular system.

He added that CDMA also allowed more customers to use their cellular phones at the same time.

In other countries telecoms companies are facing the same issues as their US counterparts.

CDMA was given a boost when the Japanese government recommended that firms in Japan should use CDMA.

But GSM supporters say that the recommendation is a political one rather than one based on the technology's merits. They say that the Japanese government is seeking to encourage use of US technology to overcome accusations that its markets are closed to foreign companies.

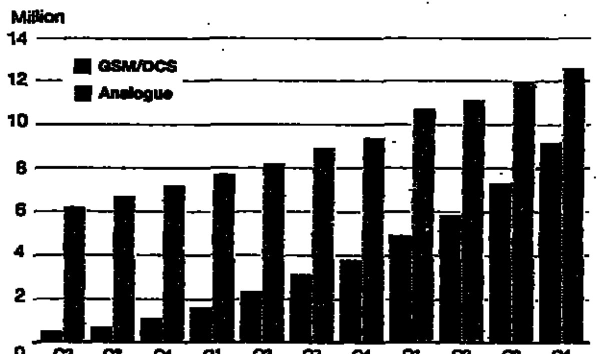
Other countries in support of CDMA are Singapore, Hong Kong, South Korea and Brazil.

GSM has been the technology of choice in many developing countries where GSM networks can be quickly established and are supplanting older telephone networks. GSM has been chosen over CDMA in Poland, China, Slovakia and India.

The battle between GSM and CDMA will ultimately be decided in the marketplace. Unfortunately, the cellular phone user will be the loser because the two technologies are not incompatible.

Digital wireless phone users will find their phones unusable when travelling through certain areas. And because GSM in the US uses different radio frequencies from those in Europe, further incompatibilities will inconvenience users.

European cellular technology



Source: SGST

The number of cellular subscribers in the world is still growing at 50 per cent a year — Sarah Murray

■ Mobile suppliers: by Hugh Carnegy

Crackling with confidence

The industry is convinced there is much more growth to come worldwide

Like the crackles and dropped signals that often disrupt a mobile telephone call, the big equipment suppliers to the world's fast-growing mobile networks have suffered alarming disruptions over the past year.

A hiccup in demand in the US – the world's biggest single mobile market – fears of a slowdown in worldwide growth, and falling prices, prompted by growing competition, have all conspired to hit profit margins and share prices – sometimes spectacularly.

But despite these upsets, the industry remains confident that there is still much more growth to come in both building mobile network infrastructure and in the sale of handsets. Latest estimates show that the number of mobile subscribers in the world, which has this year passed 100m, is still growing at an annual rate of some 50 per cent.

Penetration rates have reached as high as 25 per cent of the population in Scandinavia. But even in countries like the US and the UK, where mobile growth has been relatively fast, penetration rates remain below 20 per cent. They are much lower than that in other potentially big markets such as Japan, France and Germany. Estimates that there will be more than 350m subscribers worldwide in the year 2000 are regarded as quite conservative within the industry.

The supply of mobile equipment, from the switches and radio base stations that underpin the networks to the individual telephone handsets, is still dominated by three companies: Ericsson of Sweden, Motorola of the US and Finland's Nokia. Between them, they hold as much as two thirds of the world's markets.

Ericsson, which claims 40 per cent of the world's mobile subscribers are hooked up to its systems, is the leader in infrastructure supply. Motorola leads the sale of handsets, followed by Nokia. But all three supply both infrastructure and handset equipment.

The dominance of these three is not universal, however. In north America, Lucent, the former AT&T equipment supply division, and Canada's Northern Telecom are big infrastructure suppliers. In Europe, Germany's Siemens and Alcatel of France are also fighting for market share. In handsets the three leaders face competition from a growing number of companies, including those four. Others include Philips from the Netherlands and Japan's NEC and Panasonic.

The press of competition and uneven developments in different markets have jolted Ericsson, Motorola and Nokia over the past year. A key catalyst to a sharp fall in their share prices at the end of 1995 – Nokia's market value was cut in half between September and the turn of the year – was a slowdown in growth in the US, which accounts for 25 per cent of the world's mobile market.

Demand slowed as US operators moved to introduce new digital networks: growth in the older generation analogue networks stalled in anticipation, but the new networks were not yet on stream. Compounding the problem for the European suppliers was the decision by several of the biggest operators of digital networks to choose systems based on an operating technology called CDMA which Ericsson and Nokia do not supply.

At the same time, growing competition led to tumbling prices for handsets – by as much as 25 per cent last year, slicing profit margins.

The hiatus in the US hit Motorola hard, contributing to a weakening of group profits that has continued this year. Nokia, with its high exposure to the handset market, was also hit. Nokia's problems were compounded by internal foul-ups in its production. Ironically, these were in part caused by the difficulty in keeping pace with the sheer rate of growth it had experienced in the previous three years. In the first half of the this year. Nokia's profits crashed from FM3bn to FM1.13bn.

Ericsson, with its proportionately much greater reliance on the more stable infrastructure business, has not suffered such swings. It posted a 31 per cent rise in profits in the first half of this year and struck a confident note about the remainder of 1996.

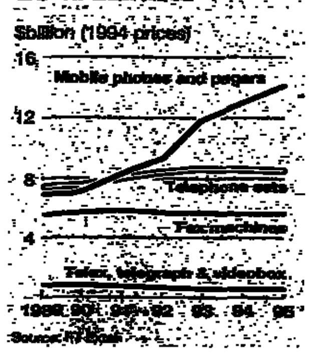
Part of Ericsson's confidence is explained by the belief that barriers to entry to the infrastructure business should mean that margins will not fall as precipitately as they have for handsets.

Ericsson clearly will not sweep the board in the new generation of networks in the US now that key operators have opted for CDMA. But its powerful position in the European digital standard GSM and GSM-related systems – which are the fastest growing network choices outside the US – gives it great strength. Likewise, Nokia intends to cash in on its similar GSM strength in infrastructure as more networks are established worldwide and – importantly – operators seek to build out existing networks to expand capacity and coverage.

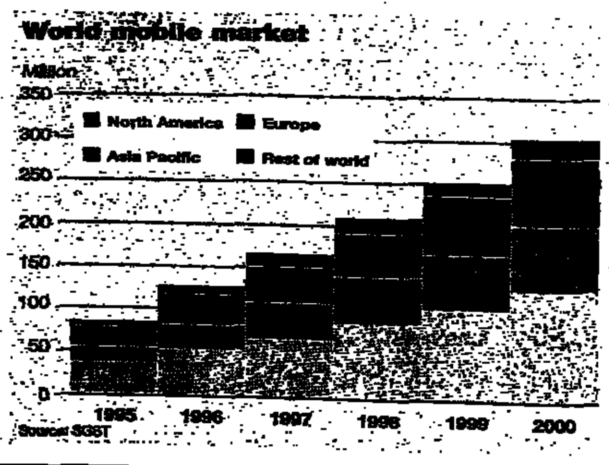
In handsets, the pressure is likely to be greater on the established big groups. They have an advantage in having big volumes to enable them to withstand falling margins. But the smaller competitors are likely to be willing to sacrifice profits to build up the market share that will give them critical volume mass later.

Much greater market segmentation between limited function, cheaper handsets, and multi-function, expensive phones is already beginning to develop, with a growing emphasis on styling and marketing. The awkward challenge to the existing dominant groups is to win such a battle against companies such as Philips and Panasonic which have much greater experience in consumer electronics.

Comparison of world markets



World mobile market



Source: SGST

مكتفا من الاصل

FT

FINANCIAL TIMES

Dear Reader,

The Financial Times publishes country, industry and financial surveys (ie. separate editorial features) several times per week. In order to help ensure that these meet your needs as a reader, we have commissioned Framework, an independent market research company, to conduct a research project.

Please could you help us by taking a few minutes to complete this questionnaire, fold, and seal return it to the research company using the International Business Reply Service - you do not need a stamp or an envelope.

The research results will be used by our editorial and marketing staff. Your reply will be treated in the strictest confidence as guaranteed by the code of conduct of ESOMAR (the European Society for Opinion and Marketing Research). We do not need you to provide your name, address or company details.

If you have any further comments about this, or other FT surveys, please do not hesitate to write to me directly.

Thank you for your help.

Yours sincerely,

Rhys David

RHYS DAVID
SURVEYS EDITOR

YOUR READERSHIP OF THE FINANCIAL TIMES

☐☐☐☐☐☐1 (1-6)

1. How often do you usually read or look at:
a. Monday to Friday issues of the Financial Times?
b. Saturday issues of the Financial Times?

	Monday to Friday (7)	Saturday (8)
Very frequently - at least 4 issues out of 5	☐1	☐1
Quite often - 2 or 3 issues out of 5	☐2	☐2
Less often	☐3	☐3
Never	☐4	☐4

2. Where do you usually read the Financial Times? (please tick all that apply)

	Monday to Friday (9)	Saturday (10)
At work	☐1	☐1
At home	☐2	☐2
While travelling	☐3	☐3
Elsewhere	☐4	☐4

3. The Financial Times publishes surveys most days each week, either within the main body of the newspaper, or as separate sections. On average, assuming five FT surveys are published per week, how many do you read or look at (either on the day they are published or at a later date)? (11)

none	less than 1	1	2	3	4	5
☐	☐	☐	☐	☐	☐	☐

YOUR READERSHIP OF THIS FT SURVEY

The following questions relate to this International Telecommunications survey.

4. How much of the International Telecommunications survey did you read/do you expect to have read once you have finished with it? (12)

- All ☐1
- Almost all ☐2
- About half ☐3
- Less than half ☐4
- Did not read it - skip to Q11 ☐5

5. Apart from yourself, how many other people will read your copy of this survey? (13)

None	1	2	3-4	5-9	10+	don't know
☐	☐	☐	☐	☐	☐	☐

6a. What will you do with this survey once you have finished reading it? (14)

- Keep the copy or selected pages for further reference ☐1
- Pass it on to a colleague ☐2
- Throw it away - skip to Q7 ☐3

6b. If this survey is kept for future reference, where will it be kept? (15)

- In the company library/another central location ☐1
- In your own office ☐2
- In another office/department ☐3
- At home ☐4
- Elsewhere ☐5

7. A number of statements are written below which might apply to the International Telecommunications survey. Please indicate how strongly you agree or disagree with each statement.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
It is well written	☐	☐	☐	☐	(16)
It contains information which is new to me	☐	☐	☐	☐	(17)
It is useful to me in my work	☐	☐	☐	☐	(18)
It is well laid out and presented	☐	☐	☐	☐	(19)
It is authoritative and credible	☐	☐	☐	☐	(20)
It is independent and unbiased	☐	☐	☐	☐	(21)
It is up to date	☐	☐	☐	☐	(22)

8. Overall, how would you rate the International Telecommunications survey? (23)

Excellent	Very Good	Fair	Poor
☐ 1	☐ 2	☐ 3	☐ 4

9. Are there any other comments you have about this survey? (please write in)

.... (24)
.... (25)
.... (26)

10. Which, if any, of the advertisers listed below do you remember seeing in this survey? (27)

Deutsche Telekom	☐1	Lucent Technologies	☐7
Cable & Wireless	☐2	Siemens Nixdorf	☐8
Nortel	☐3	Telecom Italia Mobile (TIM)	☐9
Singapore Telecom	☐4	Locate in Scotland	☐0
British Telecom (BT)	☐5	Philips	☐x
Ricoh	☐6		

ABOUT FT SURVEYS IN GENERAL

11a. Which, if any, of the following surveys published recently by the Financial Times did you read or look at? (28)

- Aerospace ☐1
- Kansai ☐2
- Reinsurance ☐3
- Infrastructure in Latin America ☐4
- Power in Asia ☐5
- Europe's Most Respected Companies ☐6
- Philippines ☐7
- None of these ☐8

11b. Which, if any, of the Telecommunication surveys published rearlier this year, did you read or look at? (29)

- UK Telecommunications Market (March) ☐1
- Asia/Pacific Telecommunications (April) ☐2
- Telecommunications in Business (June) ☐3
- None of these ☐4

12. A number of statements are written below which might apply, in general, to the range of surveys produced by the Financial Times. Please indicate how strongly you agree or disagree with each one.

	Agree strongly 1	Agree slightly 2	Disagree slightly 3	Disagree strongly 4	
FT surveys are well written	☐	☐	☐	☐	(30)
They are useful to me in my work	☐	☐	☐	☐	(31)
They cover a wide range of topics	☐	☐	☐	☐	(32)
They provide information I cannot find elsewhere/ would not see otherwise	☐	☐	☐	☐	(33)
They are better than those produced by other publications	☐	☐	☐	☐	(34)
The writing is independent and unbiased	☐	☐	☐	☐	(35)
They help me to keep informed about new trends and developments	☐	☐	☐	☐	(36)
They are accurate and up to date	☐	☐	☐	☐	(37)

13. In general, how would you rate FT surveys? (38)

Excellent	Very Good	Fair	Poor
☐ 1	☐ 2	☐ 3	☐ 4

14. In which subjects or geographical areas are you particularly interested? (please include any which are not currently covered by the Financial Times)

.... (39)
.... (40)
.... (41)

15. In which, if any, of the following ways do you use FT surveys? (please tick all that apply) (42)

- As a briefing before visiting the country or region featured ☐1
- As a part of your background research on a particular project ☐2
- To keep you up to date with a particular industry, country or region ☐3
- To incorporate into presentations, reports or other documents ☐4
- To show clients, suppliers or other contacts ☐5
- To keep you generally informed ☐6
- In other ways (please write in) ☐7

16. How do you generally find out about forthcoming FT surveys? (43)

- I look at the Guide to the Week (in Monday's paper) ☐1
- I see the advance notices in the paper ☐2
- I receive an advance topic list from the Financial Times ☐3
- I just come across them on the day of publication ☐4
- Editorial contact ☐5
- Advertising contact ☐6
- PR contact ☐7
- Other ☐8

17. In which of the following ways have you obtained copies of FT surveys? (please tick all that apply) (44)

- In your own or someone else's copy of the paper ☐1
- Had it passed on to you by a colleague ☐2
- In a library, archive or similar place ☐3
- Via www.FT.com (the Financial Times on the Internet) ☐4
- On computer disc ☐5
- On microfiche ☐6
- Via FT Profile ☐7
- Purchased a back copy from the Financial Times ☐8

18. Have you ever contacted a company or organisation as a result of seeing an article or advertisement in an FT survey? (45)

- Yes - after reading an advertisement ☐1
- Yes - after reading an article ☐2
- No ☐3

19. If FT surveys were available electronically, in which of the following formats would you be interested? (46)

Computer diskette	CD Rom	Via the Internet	None of these
☐ 1	☐ 2	☐ 3	☐ 4

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■ ATM: by Michael Kenward

The revolution gathers pace

The technology is at last being embraced as competition intensifies

After half a decade of promise, the telecoms industry is finally adopting ATM technology. And it is doing so at an increasingly rapid pace. As with other aspects of telecoms, competition brought about by deregulation and the growth of the Internet are driving forward ATM.

ATM (Asynchronous Transfer Mode – confusion with automated teller machines has not helped sell the technology in some markets) is a set of digital communications standards that define a technology for routeing messages between customers.

Two communications links now serve most desks, the telephone and the network for the computer or workstation. ATM can unite the two. It can also unite the local area network (Lan), the corporate wide area network (Wan) and public telecoms networks.

Unlike older synchronous systems, ATM circuits do not establish fixed links, holding the connection and all of its capacity even when there are gaps in a conversation, for example, or when the call contains less data. ATM takes a message – a telephone call, signals from a video conference, computer data, or any other information – and turns it into small "cells".

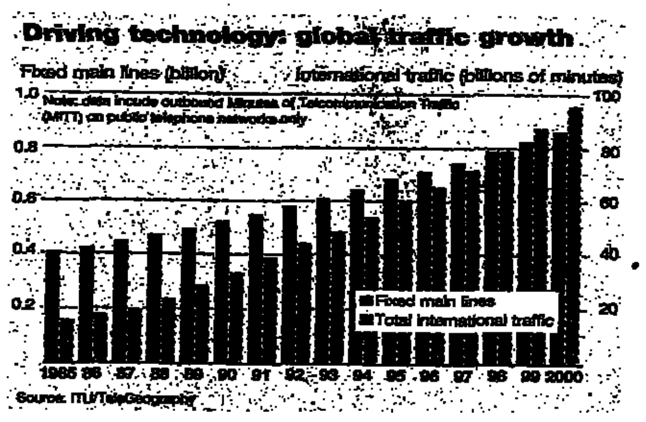
As well as its payload, the communication data, each digital cell carries housekeeping information including addresses of the call's destinations. Like wagons travelling along a railway line, each cell can carry a different customer's traffic, travelling in the most efficient order. The cells come together at the end of the journey, as directed by the addressing information, to recreate the entire consignment.

Bandwidth is the magic word in ATM technology. Video and high-quality graphics are high bandwidth applications; they send a lot of data through a network in a short time. Voice needs very little bandwidth. ATM allows the efficient combination of high and low bandwidth traffic.

By making more efficient use of a telecoms link, ATM can cram much more traffic into a network, through a fibre-optic trunk, or a copper cable for example. In 1993 Comsat, a communication satellite company, demonstrated that commercial satellites can carry ATM traffic. Later this year Comsat will offer new ATM services, free for a promotional trial period, over the Intelsat satellite telecoms system.

In theory, ATM allows customers to buy bandwidth on demand, to dial into a network and to send whatever traffic they wish. No longer would customers need to book lines for video conferences, for example. But this depends on the arrival of switched ATM that customers can call up in an instant, a facility now becoming available but only in some markets.

Driving technology: global traffic growth



Source: ITU/TeleGeography

So while ATM was conceived as a standard for the world's telephone systems, so far it has done more for data traffic over Lans, a relatively minor application when the idea surfaced.

ATM has already made an impact in the healthcare sector, where hospitals, media facilities and university medical centres use ATM video conferencing, distance learning and remote diagnostics.

Other targets for ATM technology include natural resource exploration, film production, publishing, news delivery, research and education, and banking and finance.

With so much going for it, why has ATM taken so long to catch on? It turns out that achieving all the potential is not as straightforward as the propaganda suggests. ATM should have been launched as the best way to offer high speed data services, rather than a way of integrating voice and data, says Mr Duncan Black, manager of Mercury's Technical Consultancy.

"It wasn't sold that way, which is why ATM has got a bad press," he adds. "Voice is not an easy thing to integrate with an ATM structure." Mr Black does not expect ATM to make significant inroads into voice traffic for "somewhere between five and 10 years".

These are indeed still early days for ATM in public telecoms networks. BT and France Télécom held the first video conference test between the UK and France, using the European ATM Pilot network, as recently as August 1994.

The state of ATM technology means that there is still room for research. The European Union launched a follow up to the ATM Pilot network in April. Project James (Joint ATM Experiment on European Services) is a collaborative project between 18 European network operators.

Project James will conduct research into the use of ATM technology for broadband networks with the aim of developing a Europe-wide ATM-based interconnection structure together with associated experimental services.

ATM has made more progress in data communications where there are two key drivers in the spread of the technology. One is the rapid traffic growth. The other is the demand for high bandwidth for certain applications, and the subsequent need to integrate those customers with existing networks.

Networks installed for internal e-mail now carry World Wide Web pages as companies install 'intranets'. These internal WWW sites are used for such things as centralised sales records and service manuals. With increasing use of graphics, movies and sound, all heavy consumers of bandwidth, sending this information across the Lan can quickly outstrip its capacity.

"It blows the average corporate network out of the water," says Mr Black.

A major advantage of ATM is that it offers the possibility of quickly increasing capacity by bolting on extra modules. ATM is, says Mr Black, "the only technology that really does scale up quickly".

While 95 per cent of the people on a network may not need lots of bandwidth, they still have to be connected to the same network. This connectivity is only now becoming possible at a reasonable cost. Until recently, says Mr Black, too little effort went into integrating ATM into existing networks.

Film producers use ATM to transfer moving images between production units Columbia Pictures Industries

There just wasn't the hardware around to bring ATM to the desktop. This is now beginning to happen, he explains, as companies like IBM offer the technology to bring ATM to the desk more economically.

IBM's own experience shows that potential customers overestimate the likely cost of implementing ATM. The computer company sponsored a survey earlier this year by Total Research.

One finding in the survey of 277 organisations in the UK was that network managers estimate the cost of ATM at £750 per user which is about twice the true cost.

The market for ATM could explode when people realise that it the costs are not significantly more than for older technologies.

The survey showed that while just two of the companies questioned had already implemented ATM, some 14 per cent expected to do so within a year. Of this 14 per cent, 46 per cent aim to use ATM on the Lan backbone, 36 per cent plan to use it for Wan connections, and 26 per cent intend to extend it to the desktop.

The merger of the local and corporate network, the Lan and the Wan, and the desire to connect these to the public telecoms system, has prompted alliances between companies that serve the two sectors. Earlier this year, for example, the electronic giant Siemens and the Canadian company Newbridge Networks, a leading supplier of network products and systems, announced a co-operation agreement to "push the development of ATM technology and integrate their ATM products reciprocally in their respective product lines".

Siemens is a leading supplier to the public telecoms industry. Newbridge claims to have more than half of the ATM Wan market, a position it has built up in its 10 years existence. Ernst-Heinrich Goeldner, of Siemens's Public Communications Networks group, believes that the alliance between the two companies will overcome the separation of telecoms and data handling.

"The only way to stay in business," says Dr Goeldner, "is to be on both tracks and to combine the data and traditional carriers."

There has been interest in ATM in the public telecoms sector for a few years, says Dr Goeldner, but products that can provide a stable communications backbone are only now becoming available.

For example, 'ATM on demand' is still new. Siemens installed the first German 'backbone' ATM system for Deutsche Telecom in 1994. In July this year the company introduced its first switched ATM service. The industry is now reaching a position with ATM, says Dr Goeldner, "where we can show people what can be done and not just put it on paper".

With reliable technology coming on stream, a major driving force behind the growth of ATM is the spread of deregulation and the arrival of new carriers. Mike Wilkinson, Product Marketing Manager for ATM with Newbridge Networks, believes that the technology provides new entrants into the telecoms market with the foundations for networks that can grow as they add new services.

For example, says Mr Wilkinson, new carriers offer to replace leased lines with virtual networks built around ATM technology. The carriers can then expand these networks relatively easily to offer new services.

"ATM platforms are an excellent delivery mechanism for these new services," says Mr Wilkinson. There is more ATM where there is competition, he adds.

Established carriers do not want to be caught on the hop, so even though they have huge installed systems based on older technology, they are committing themselves to ATM so as not to be left behind.

PROFILE Lucent Technologies

No stranger to innovation

Few telecommunications equipment suppliers can trace their history as far back as 1869, but Lucent Technologies, the unit recently spun off from AT&T, has a tradition of innovations that has it well placed for the changing telecoms markets.

Along with its strong position as a key supplier of cutting-edge telecoms equipment, Lucent also has the well-regarded Bell research laboratories and is involved in the development of new manufacturing technologies for advanced chips used in telecoms applications. It is also pioneering technologies such as its Inferno operating system, which could transform the way telecoms networks are used and spawn a significant market for new communications devices.

The big news at Lucent this year was that its parent, AT&T, planned to take Lucent public with an initial offering valued at about $15bn. AT&T said that the Lucent spin-off would allow Lucent to compete better in sales to telephone companies without the problems associated with being linked to a large US long-distance telephone company.

A key feather in Lucent's cap is that it now has control of the famous Bell Labs, which have been a fertile ground for developing successful new technologies. With strong competition in the communications market, Lucent hopes Bell Labs will give it a competitive edge.

Bell Labs has helped AT&T register an average of one patent a day since 1925. Its communications technology contributions include the development of TV transmission, the transistor, the laser, the first communications satellite Telstar, touch-tone telephones, and key software technologies, notably the Unix operating system and the C++ programming language.

As software becomes an increasingly vital part of managing complex high-speed telecoms technologies such as frame relay and asynchronous transfer mode, a strong software base is an important asset.

Lucent is trying to establish its Inferno system software and Limbo language as an industry standard for enabling a wide range of software applications to be distributed over communications networks and run on virtually any hardware platform.

This is a similar approach to that pursued by Sun Microsystems with its JavaOS systems software and Java computer language. An advantage of technologies such as Inferno and Java is that software developers can create just one version of a program and be able to run the application on computer devices ranging from set-top TV boxes, handheld wireless computers, desktop PCs and mainframes. This saves developers an enormous effort in porting their software to different hardware platforms.

Mike Skarzynski, vice-president and general manager of Lucent's Inferno business unit says: "Inferno comes out of Bell Labs and it has some of the same team of developers that created the Unix operating system. It will solve a real need in the market that network service providers and others are facing."

He notes the comparisons made between Inferno and Java, but says that the two technologies are complementary. The Inferno operating system is designed to take up as little as 1MB of memory, making it possible to run Inferno and its applications on a wider range of computer devices without a large system memory. Native versions of Inferno have been developed for X86, MIPS, ARM platforms, PowerPC and Motorola microprocessors.

Inferno, however, will face a hard road in establishing itself in the wake of the enormous support that Sun's Java has received. Large telecoms companies and computer companies have announced plans to license Java and develop Java-based applications.

"AT&T has not had much success in recent times in establishing some key computer technologies. It was a big supporter of General Magic's Telescript technology which offers some of the same benefits as Inferno. And Java has captured a lot of attention," says Scott Rubin, an analyst at US market research firm Jupiter Communications.

Although Lucent says it will support Java applications, competitors such as Nortel and Siemens Rolm are both strong Java supporters and are likely to prefer using Java instead of Inferno – a technology from a big competitor. Lucent faces a risk in that its strong focus on Inferno could lead to a dead-end in terms of support from key third parties and that it may wind up behind the market when it comes to Java applications.

The days when a strong company such as Lucent could forge ahead alone with key technologies are gone and the complexity of modern communications technologies requires partnerships. Lucent is realising the need for these and has been announcing key partners in various markets. Earlier this year, it announced an alliance with network equipment provider Bay Networks to provide integrated voice and data networks over ATM for use in multimedia applications.

A key management idea influencing Lucent and others, is to look at its competitors as potential partners in what is termed "co-opetition". And Lucent will be announcing more partnerships in this vein later this year.

As corporations require more multimedia data communications, new markets for Lucent can be created. For example, it is trying to position its flagship 5E switch as capable of supporting any type of media such as voice, wireless, video, and computer data.

The popularity of the Internet has placed great demands on telecoms companies to increase the speed of access for Internet users. Current modem technology over plain telephone lines is limited to about 33 kilobits per second, while Integrated Services Digital Network modems can handle speeds of about 128 kilobits. Lucent has pioneered Asymmetrical Digital Subscriber Line (ADSL) technology which offers several megabits per second communications over copper phone lines.

However, earlier this year, Lucent sold its Paradyne ADSL technology unit saying that it prefers to be a customers of Paradyne's. This should also help it take advantage of the best ADSL technologies available rather than commit itself to one technology.

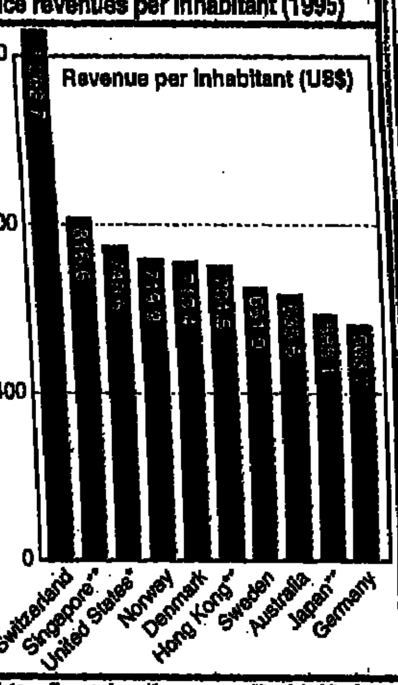
John Berndt, president of multimedia ventures and technologies for Lucent Technologies explains, "Lucent Technologies can gain the advantage of Paradyne's technologies without owning and operating the business, since we will still have access to Paradyne's current and future products as a customer."

While Lucent faces many of the same challenges that its competitors are grappling with, its strong technology base should ensure future successes.

Tom Foremski

Global sell-off gathers pace

Top 10 economies by telecommunication service revenues per inhabitant (1995)



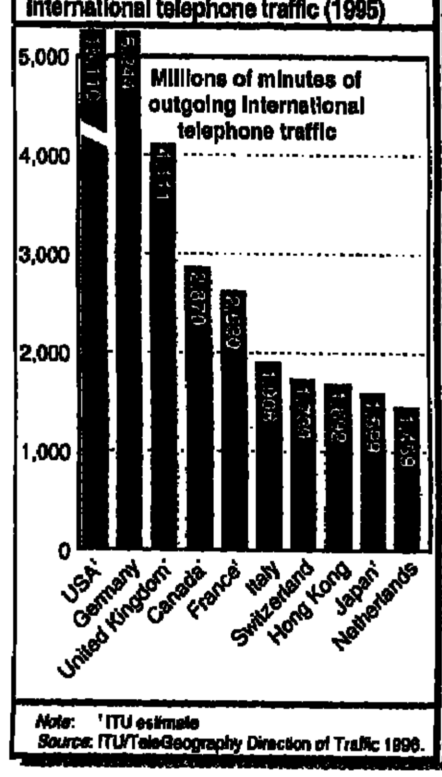
Notes: Economies with over one million inhabitants * 1994 data, ** as of 31/3/95
Source: International Telecommunication Union, World Telecommunication Indicators Database

Top 15 telecommunication operators by telecommunication service revenue

Company (Country)	Telecom service revenue: Total US$ m	Telecom service revenue: Change 1994-95
NTT (Japan) a	84,060	22.0%
AT&T (United States) b	47,277	6.9%
Deutsche Telekom (Germany)	46,161	17.4%
France Telecom (France)	29,613	15.3%
BT (United Kingdom) a	22,785	7.2%
Telecom Italia (Italy)	18,463	2.3%
BellSouth (United States)	17,886	6.2%
GTE (United States) c	17,374	0.1%
MCI (United States)	15,265	14.4%
Sprint (United States)	13,556	7.1%
Bell Atlantic (United States)	13,430	-2.6%
Ameritech (United States)	13,428	6.8%
Nynex (United States)	13,407	0.8%
SBC (United States)	12,670	9.1%
US West (United States)	11,746	7.2%
TOP 15	377,132	11.2%

Notes: a) Year ending 31 March 1996. b) AT&T telecommunication services revenue. c) Not including revenues from overseas subsidiaries.
Source: International Telecommunication Union, Public Telephone Operators Database.

Top 10 economies by minutes of outgoing international telephone traffic (1995)

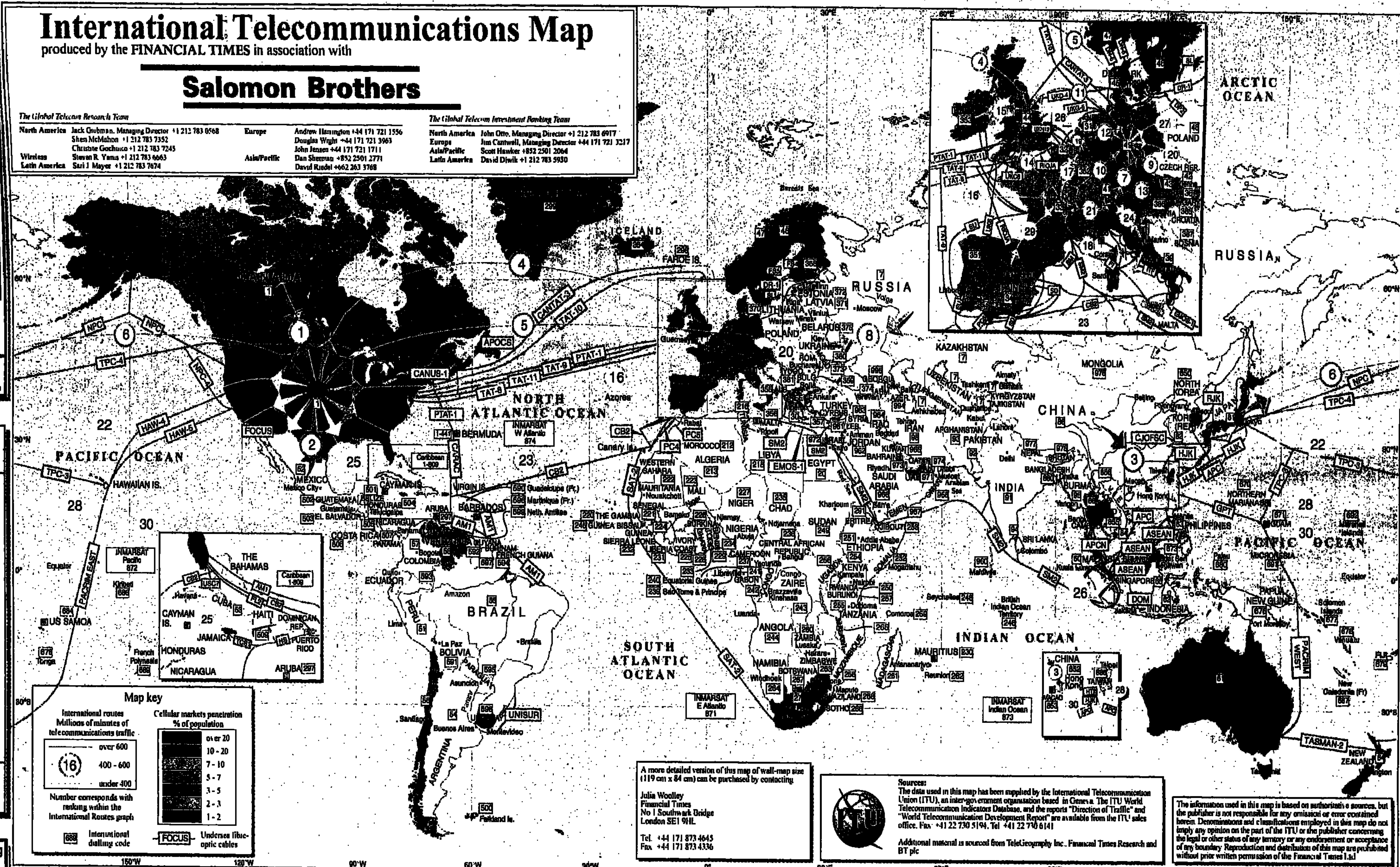


Note: ' ITU estimate
Source: ITU/TeleGeography Direction of Traffic 1996.

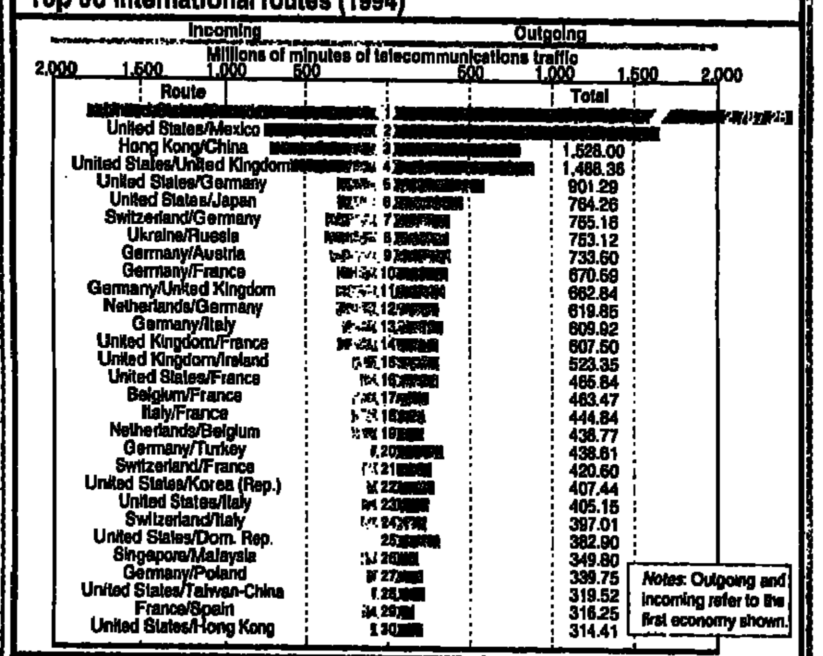
International Telecommunications Map

produced by the FINANCIAL TIMES in association with

Salomon Brothers

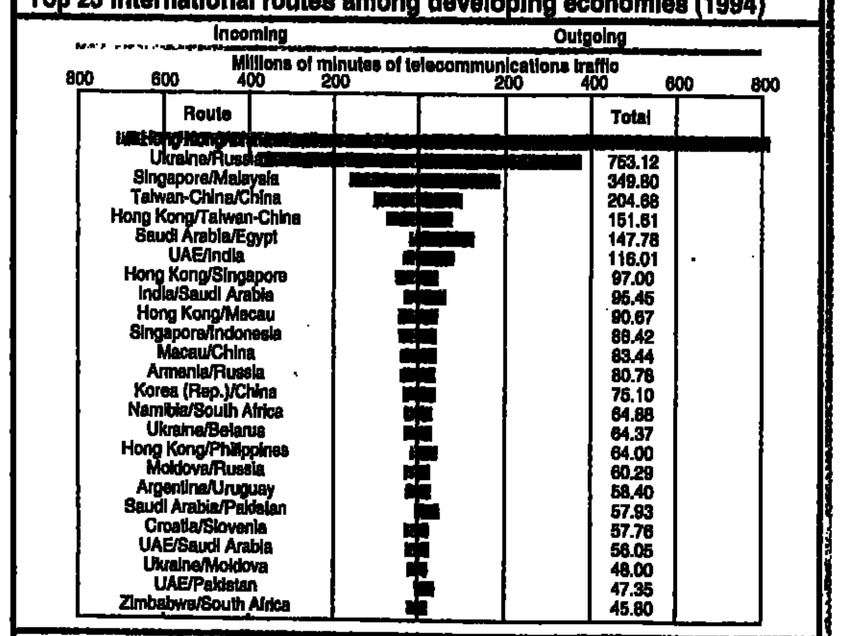


Top 30 international routes (1994)



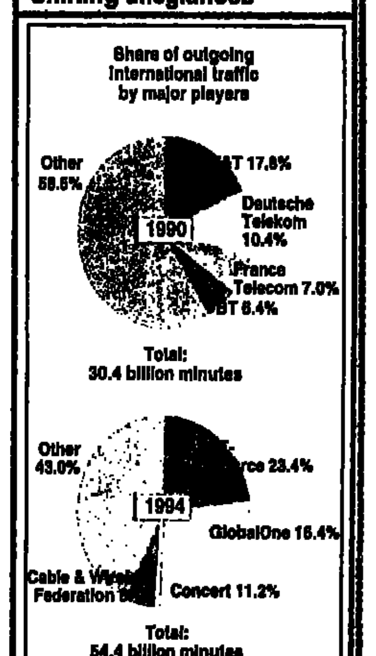
Notes: Outgoing and incoming refer to the first economy shown.
Source: International Telecommunication Union/TeleGeography Direction of Traffic database.

Top 25 international routes among developing economies (1994)

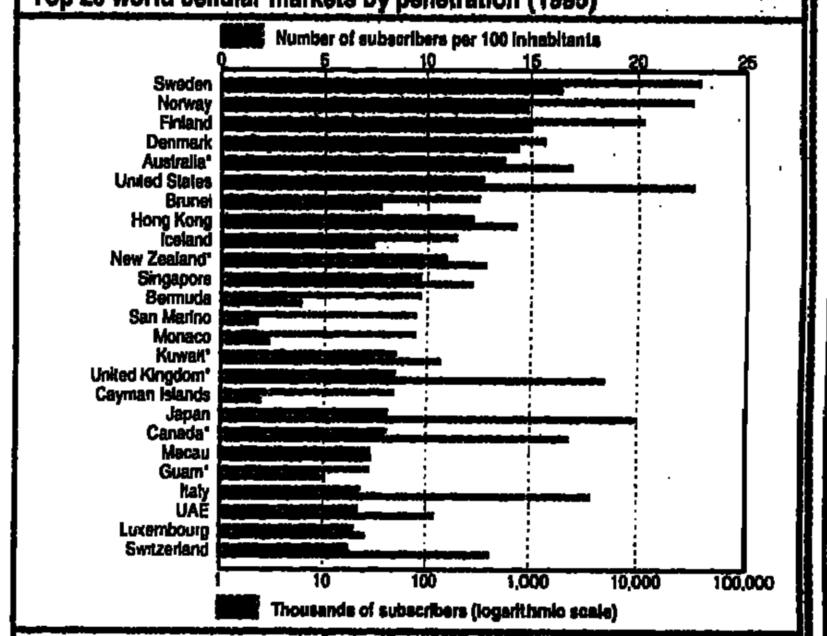


Notes: Outgoing and incoming refer to the first economy shown.
Source: International Telecommunication Union/TeleGeography Direction of Traffic database.

Shifting allegiances



Top 25 world cellular markets by penetration (1995)



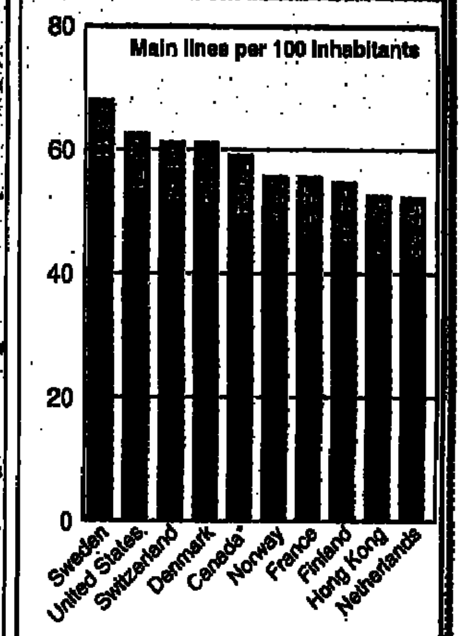
Notes: Economies with over 10,000 inhabitants. * Estimate.
Source: International Telecommunication Union, World Telecommunication Indicators Database.

Forthcoming privatisations

Economy	Company
100 per cent state-owned enterprises	
Australia	Telstra
Côte d'Ivoire	CI Telecom
Croatia	HPT
Ecuador	EMETEL
El Salvador	ANTEL
France	France Telecom
Germany	Deutsche Telekom
Ghana	Ghana Telecom
Jordan	Telecommunications Corp.
Mauritius	Mauritius Telecom
Morocco	ONPT
Nicaragua	Telcor
Pakistan	Pakistan Telecommunications
Panama	INTEL
Paraguay	ANTELCO
Poland	Telekomunikacja Polska S.A.
Russia	Sviazinvest (Holding company)
Senegal	Sonatel
Slovenia	PTT Slovenije
South Africa	Telkom
Sri Lanka	Sri Lanka Telecom
Sweden	Telia
Switzerland	Swiss PTT
Turkey	Türk Telekom
Uganda	Uganda Telecom
Zambia	ZAMTEL
Partly private companies	
Brazil	CRT, Telebras
Greece	OTE
Israel	Bezeq
Italy	STET
Korea (Rep.)	Korea Telecom
Portugal	Portugal Telecom
Singapore	Singapore Telecom
Spain	Telefónica
Venezuela	CANTV

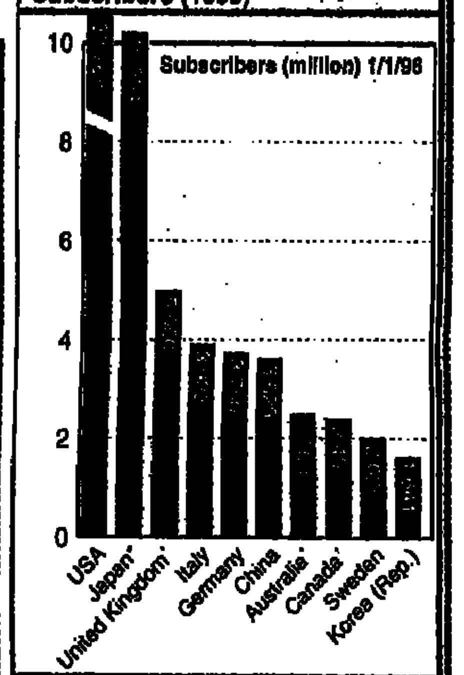
Source: Forthcoming ITU World Telecommunication Development Report 1996/97

Top 10 economies by penetration of main telephone lines (1995)



Notes: Economies with over one million inhabitants. * 1994 data
Source: International Telecommunication Union, World Telecommunication Indicators Database.

Top 10 world cellular markets by subscribers (1995)



Notes: * Estimate, ** as of 31/3/96
Source: International Telecommunication Union, World Telecommunication Indicators Database

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International TELECOMMUNICATIONS

PART 1

IN THIS SURVEY

While national governments are busy liberalising their telephone industries, the rate of change, shows broad geographic differences, writes **Alan Cane**

Global sell-off gathers pace

The global telecoms business is peering into a future guaranteed to bring unprecedented structural change as a result of liberalisation, globalisation and a shift from traditional telephone services to multimedia.

Companies once seen as natural state-owned monopolies are being privatised at a rate which will force the investment community to dig deep into its pockets. A first tranche of Deutsche Telekom comes to market in November with a $10bn price tag. Stet of Italy and France Télécom are expected to follow early next year.

At a technical level, moreover, the industry is faced with replacing the infrastructure of the global telecoms network before it creaks to a halt under the burden of demands from customers which were never envisaged when the present network was designed.

Opening up most of the world's telecoms markets to competition remains crucial to the creation of an advanced international telecoms network capable of supporting a global economy.

World Trade Organisation talks earlier this year failed to secure such a global agreement. A new deadline of February 15 next year has been set in the hope that enough major countries can be persuaded to promise to open their markets to the extent that an accord can be reached.

The pace of change, however, shows broad geographic differences. The North American market, which accounts for 30 per cent of the world's telecoms traffic, is in a ferment of activity over opportunities made possible by the 1996 Telecommunications Act, which opened the country's local, long-distance and cable television service markets to full competition.

It allows, for example, the regional phone companies, the "Baby Bells", to compete with AT&T and other long distance carriers in the lucrative long-haul market. Only weeks after the passage of the Act, a number of the Baby Bells have picked strategic partners to improve their competitive position. SBC Communications and Pacific Telesis announced a merger in April. Bell Atlantic and Nynex followed suit three weeks later.

The ground rules for competition in the US in this newly liberalised environment have yet to be finalised. Reed Hundt, chairman of the Federal Communications Commission, the regulatory body charged with setting the rules, said earlier this month: "If we do our job right, we will pull off the most successful bit of demonopolisation since the break-up of the Standard Oil Trust in 1911; we will boost America's world leading productivity rate; we will stimulate hundreds of billions of dollars in new investment in the next 10 years and as a result we will see as many as 1m new jobs created in that time period."

Fears that such a communications revolution, led by companies whose entrepreneurial spirits and efficiency had been honed in competitive markets, would leave Europe lagging were behind the decision to open the EU's voice, data and infrastructure markets to full competition from January 1, 1998.

Similarly, the dominant operator in the Asia Pacific region, NTT of Japan, which has an 87 per cent share of its domestic wireline telephone business, is facing renewed calls for its break-up. A study panel within the Japanese telecoms ministry argued that breaking the group into a single long-distance operator and two local operators would speed liberalisation of the domestic industry and improve earnings.

NTT countered, however, that the break-up would not only be prohibitively expensive, but that it would damage its global competitiveness and reduce investment in telecoms R&D. The Japanese government has delayed a decision on the break-up until the end of the current financial year.

An immediate effect of competition is to reduce prices. Despite the fact that only the UK, Sweden and Denmark operate fully liberalised markets, prices have been falling across Europe for the past decade as operators prepare for 1998.

Analysys, a Cambridge-based consultancy specialising in calculating telecoms costs says: "As liberalisation proceeds and European operators increasingly move into each other's markets, there will be pressure for [currently] non-liberalised countries to bring their prices into line with liberalised countries."

Mobile phone services in Europe have, in general, been liberalised from the outset. Even so, the most dramatic price decreases have been seen in countries with a number of competing operators. In the UK, for example, where Vodafone, Cellnet, Orange and Mercury One-2-One are fighting fiercely for market share, high usage business customers have seen price declines of more than 60 per cent.

In the mature economies, however, there is little scope for growth in the basic business of providing telephone lines and services. Increased competition, lower technology costs and falling prices mean telecoms operators, awash with cash now, will find profit margins squeezed by the turn of the century. Price pressure will apply to large and small operators and to fixed wire and mobile operators. Operators used to monopoly profits such as Deutsche Telekom and France Télécom will be hardest hit.

The measures to counter the threat of declining profitability include the formation of strategic alliances at a global level to compete for the business of large international customers and local alliances to challenge incumbent operators on their home territory. The principal global alliances are Concert, established by BT and MCI of the US, Global One, set up by Deutsche Telekom, France Télécom and Sprint of the US and WorldPartners led by AT&T.

Cost-effective operations will become crucial as older operators burdened with a bureaucratic decision-making structure and a surfeit of staff, fight for market share against a host of nimble new operators.

The need for continued heavy expenditure on infrastructure and new services may see operators make increasing use of non-recourse funding for major projects. They are already putting pressure on their suppliers to cut prices.

Multimedia services in a variety of forms from video-conferencing to Internet services and broadcast entertainment offers operators a golden opportunity to maintain and increase profitability.

Today's networks, however, are not up to the task. Much depends on the operators' commitment to creating infrastructure suited to 21st century services.

Alan Cane explains why the global telephone network is at risk from the demands of the multimedia revolution on page 13 of this survey.

■ **Global One:** by Michael Lindemann

Tensions hard to avoid

Adapting to new partners' business styles poses headaches for global players

Ron Sommer, Deutsche Telekom's chief executive, enjoys taking a dig at his competitors.

Companies like Mannesmann and Veba, two of Germany's biggest would-be telecoms operators, are not going to find it at all easy, Mr Sommer says, to blend their cultures with those at AT&T and Cable & Wireless, their respective international partners.

"That all takes time," he likes to point out.

However, when it comes to Global One, the new company created earlier this year to handle much of Deutsche Telekom's international traffic, Mr Sommer and Deutsche Telekom find themselves in much the same position.

The German group suddenly has to get used to the business styles of France Télécom, the state-owned French carrier, and Sprint, the third biggest US long-distance carrier.

Getting used to the former may not be so difficult, given that France Télécom and Deutsche Telekom are both still state-owned operators which enjoy a virtual monopoly in their respective markets.

However, working with Sprint, the Kansas City-based group which has grown rapidly in the US's largely liberalised market, is likely to be a rather different experience.

The tensions are easy to see. A standard Global One press release has to allow space for Chris Rooney, the boss of the company's world unit, to make his comments. Room also has to be found for Jean Arnould and Jürgen Dostal, the heads of the Europe and the networking divisions, to have their say.

"It's decision by committee," says one telecoms analyst, who believes the group's structure compares unfavourably with that at Concert, the global telecoms venture in which British Telecommunications has a 75 per cent stake. MCI, the second biggest US long-distance carrier, holds the other 25 per cent.

"The only thing that is good about Global One is that it isn't a United Nations type arrangement, which is what has occured at Uniworld," the analyst said. Uniworld is the alliance between AT&T and Unisource, which itself is an alliance between national telecoms operators in the Netherlands, Spain, Sweden and Switzerland.

However, while decision-making at Global One may be complicated, the company does pride itself on providing dedicated Global One staff in more than 60 countries around the world. At Concert and Uniworld, the separate companies within the alliances deal with clients.

There is evidence also that the clearer fault lines at Concert have led to other problems. One UK-based international telecoms analyst claims, for instance, that MCI is bypassing Concert and selling network outsourcing on its own account in the US.

MCI has also created a Canadian subsidiary, SDH, which is partly competing with Concert and has been selling virtual private network or VPN services separately in France, he says.

"MCI has not entered into the spirit of Concert in quite the same way as BT," the analyst says.

"That has everything to do with the fact that BT was desperate to enter a global alliance and was prepared to pay a huge amount of money in order to be able to book up with MCI."

What does appear clear, analysts say, is that Global One has a headstart over Uniworld, which has come to something of a standstill in recent months.

Part of the problem for Uniworld lies in Spain where the government is hoping to postpone full liberalisation of the telecommunications market for another four years until 2000. The delay is likely to jeopardise Telefónica's full membership of Unisource.

Other analysts say that relations between the different companies within Uniworld are likely to be complicated by the fact that they get to keep the profits from new businesses they introduce into the venture. Global One and Concert do not operate along those profit lines.

While Global One, Concert and Uniworld struggle to further streamline their operations, however, it is encouragingly clear that the market for so-called seamless global telecoms services provided by a single operator is growing substantially.

Much business communication that used to take place by paper mail is now done by means of electronic mail. And the growing number of companies which globalise their operations would be keen to streamline their ever more expensive telecoms operations.

"That is all good news for companies providing global telecoms services," says Tony Dench, an analyst at the Yankee Group Europe, a telecoms consultancy.

Paul Sharma, a spokesman for Concert, says the volume of global, seamless telecoms services is roughly doubling every year as companies become more comfortable using the system, and as the geographic reach of the various networks increases.

Services are also likely to become more attractive and affordable as alternative telecoms infrastructure is liberalised across most of Europe, Mr Sharma says. Concert, for instance, is about to start a trial period with Hermes, the consortium of European railway networks which will carry telecoms services in the cables alongside its railway lines.

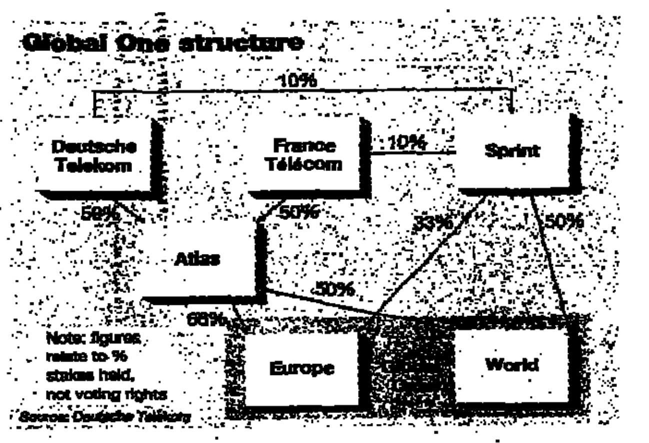
He admits, however, that BT had no real idea of the size of the market because the competition, in the form of Global One and Uniworld, has taken so long to materialise.

The figures themselves add to the confusion surrounding the global alliances. Global One has forecast sales this year "in excess of $800m", while Concert, which was established in June 1994, said it had sales last year of $400m and has sales "in the pipeline" worth another $1bn.

Concert insists its figures account only for services carried on Concert's network, while Global One's figures, it says, include all international telephony from the three partner companies. Vince Hovanec, a spokesman for Global One, contradicts this, saying the Global One figures include all incoming international traffic to the three carriers but that outbound international traffic accrues to the three carriers themselves.

While there is still uncertainty about the way the alliances calculate their revenues, Global One is readying for its first concerted advertising campaign this autumn.

The European Commission had forbidden the company to advertise within the European Union before it received final approval for the venture. With that secured on July 17, the company will now put the case for seamless global telecoms services in media across Europe.



■ **WorldPartners:** by Richard Handford

Eight new countries targeted

As competition builds, winning is about having more carriers and offering more services

The WorldPartners Association, one of the three leading global carrier alliances, plans to sign up new partners and expand its range of services over the next 12 months as competition intensifies between itself and its two main rivals, Concert and Global One.

AT&T-led WorldPartners is talking to telecommunications carriers in up to eight countries, including China and India, about joining the association.

In addition, it would like to expand the services it offers, known as the Worldsource range of services.

The venture's plans follow on from its first three years of operation, during the course of which it signed up carriers and developed services tailored to multinational users.

Like its competitors, it aims to be able to offer multinationals a single set of services of consistent quality across all its offices in different countries.

The venture was formed by US telecommunications giant AT&T in May 1993, when it joined forces with two other carriers, Singapore Telecom and Kokusai Denshin Denwa (KDD) of Japan. The venture was initially a response to the BT-owned Syncordia, which later evolved, through BT's partnership with US carrier MCI, into Concert.

A year later the Unisource joint venture of European carriers Telia of Sweden, PTT Telecom Netherlands, Swiss PTT Telecom, and Telefonica of Spain joined WorldPartners.

Unisource and the three existing members of the venture, are its only equity investors. As well as selling its services, they also make the strategic decisions.

WorldPartners now has agreements with carriers in a further 12 countries. These partners sell its services but have no equity involvement in the venture. All carriers, whether shareholders or just members of its association, pay a fee for the right to offer the Worldsource range of services, but keep the revenues generated from the sale of services themselves.

WorldPartners develops all its own services but leaves the selling to the carriers.

Virtually all the members and shareholders are from the Asia-Pacific, Canada and the US. They include Hongkong Telecom, Telstra of Australia, Telekom Malaysia, Korea Telecom and Unitel of Canada. New carriers which join over the next year from countries such as India and China are likely to do so as members rather than investors.

The venture is only represented by two companies for the whole of Europe: a subsidiary of AT&T serves the UK market, and the AT&T-Unisource alliance covering every other European country. This alliance, set up in May, builds on the back of the partners' previous Uniworld link-up for the European market, created in December 1994.

WorldPartners is unlikely to change its structure, according to Jim Pagos, AT&T vice-president for international strategy and alliances: "We have the right form and the right relationships," he says. But, Mr Pagos adds, "we will look for participation from other carriers."

A frequent industry jibe refers to the complexity of WorldPartners' structure, particularly in Europe but, Mr Pagos claims, "we are not the United Nations". The main decisions are taken by the four equity shareholders.

However, if other members of the association feel marginalised within the association's structure, they are less likely to be committed to selling its services. It is these carriers which enjoy any profits generated from Worldsource services while WorldPartners, which develops the services, aims only to break even by living off their membership fees.

Compared to its partnership structure, WorldPartners' portfolio of services appears simple. It offers a virtual private network voice service, private network data service and a frame relay service for higher speed data applications.

Over the next six months to a year it plans to broaden the range of data services on offer.

In addition, WorldPartners is considering whether to develop an Internet service that members could offer to customers. This could take the form of an Intranet service which would enable corporations to enjoy the benefits of the Internet on their own private networks.

The Internet has arisen as one of the most important issues facing alliances of big telecommunications carriers. When they were first conceived in the late 1980s and early 1990s, the Internet was not a prominent factor in their plans to develop global services. Now WorldPartners must decide whether to offer such a capability globally to its customers, or leave partners to deploy their own Internet services at a local level.

Rival Concert announced in June that it was close to finishing construction of its own global Internet network.

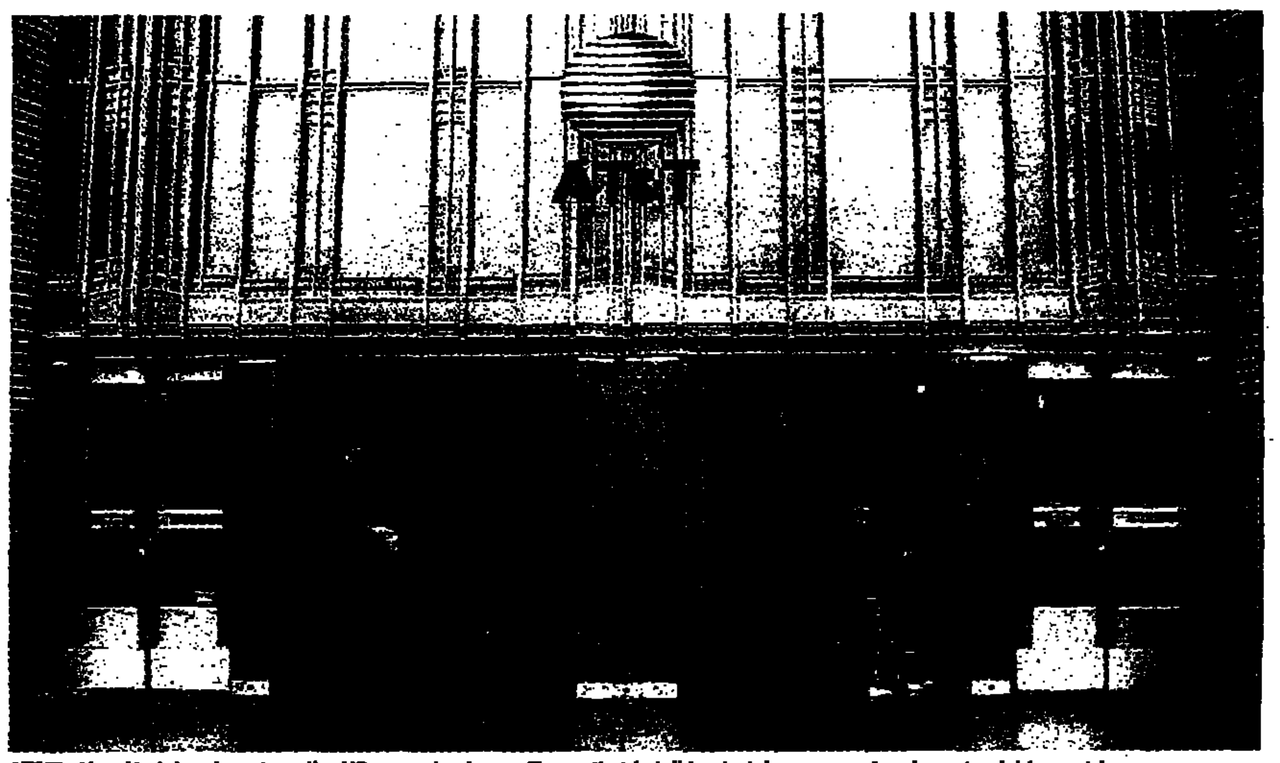
The way they deal with the Internet might also give some indication of how the three global carriers aim to distinguish themselves from one another.

AT&T's Mr Pagos argues that WorldPartners has already done that in areas such as quality of service, but many users are sceptical about whether much difference exists between the alliances. "I have spoken to dozens of international companies and a strong theme emerges that these alliances are seen as national monopolies becoming global cartels," said one leading industry consultant. "Users ask: 'What's the difference?' in terms of pricing, features and value for money," he says.

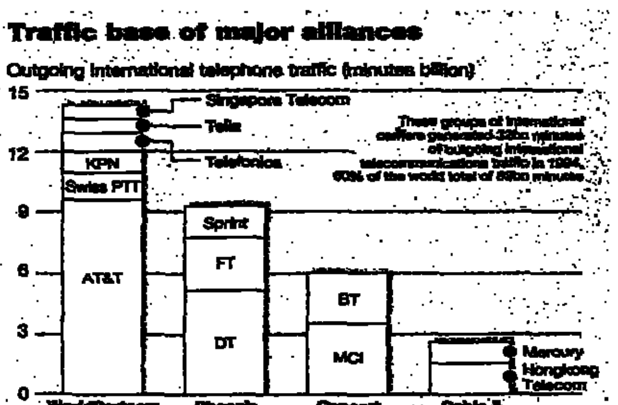
WorldPartners currently has 225 customers, including Mastercard, Nomura Research and National Semiconductor. All of them were referred to the association by its members, many by AT&T in particular, which indicates the extent to which WorldPartners, like its rival ventures, is primarily a defensive strategy. A carrier such as AT&T is nervous that if it loses the overseas business of a US multinational then, ultimately, that customer might decide to shift all their US business to a foreign carrier as well.

While the various alliances continue to offer similar services to customers then, defensively, they are safe, although unlikely to generate much new revenue through winning business from one another.

Once they choose to differentiate, that will reflect a more offensive approach, which is likely to be welcomed by most customers.



AT&T's New York headquarters: the US group leads an alliance that is talking to telecoms carriers in up to eight countries *Reuter*



■ **Concert:** by Alan Cane

Stealing a march on its rivals

Clearance from the US and EU has given the BT-MCI link-up a big advantage

British Telecommunications and its US partner MCI announced earlier this year that they were close to completing the world's largest Internet network.

Involving the installation of at least 12 large switches in the US, Europe and the Asia Pacific region linked by high capacity fibre optic cables, the new network, to be launched later this year, will increase the capacity of the Internet by about a third, improving speed and efficiency for its users.

For most of them, private individuals or small companies, the advantages brought by what BT is calling "Internet Plus" will be their first experience of Concert, BT and MCI's global supercarrier. "For the first time," says Geoffrey Axton, Concert's vice-president for commercial development, "the Internet will be reinforced by an industrial strength network with a guarantee of quality service."

Concert, a strategic alliance 75.1 per cent owned by BT and 24.9 per cent by MCI, will operate and manage the new network. Its chief objective has been to provide seamless, end-to-end communications for the world's multinational companies.

Announced in 1993, it was not the first of the global supercarriers. Unisource, initially *formed by the Dutch* and Swedish national telecoms operators was the first, followed by the AT&T-led group WorldPartners. Concert has, however, a lead over its rivals as the only supercarrier with full regulatory clearance from both the US and EU authorities.

This is because the US and UK markets are both judged to be open and competitive to the same degree. Global One, an alliance between Deutsche Telekom and France Télécom, has won *only conditional* approval because of the closed nature of its parents' home markets. The same is true of World-Partners, *which includes* Unisource as a partner.

Concert, headquartered in Reston, Virginia, has been quick to *capitalise* on its advantage signing up more than 2,700 customers and securing $1bn in revenues in its first trading year with, according to BT chairman Sir Iain Vallance, "as much again in the pipeline". According to company officials, the company is running ahead of its business plan and expects to break even at the operational level in the financial year 1997/98. Its international customers include Ford, Citibank, *Grand Metropolitan* and Acer Computer.

The creation of Concert was a bold move for BT. It paid *$4.3bn* for a 20 per cent stake in MCI, a company of markedly different culture and management style.

The early days were tense as the two companies learned to adjust to each other's style. In the end, however the gamble will pay off handsomely if Concert can secure a significant share of the $10bn large multinational companies spend annually on telecoms services.

It offers a portfolio of six global services including virtual networks, packet switching, frame relay, Internet and managed bandwidth and an interesting development called Concert Inbound.

Of particular value to companies with internationally distributed call centres, Concert Inbound makes possible the collection and redistribution of calls in bulk to any specified destination or pattern of destinations.

Concert Communications owns and operates the global network. It uses what is essentially common technology worldwide with switches provided by Ericsson and Nortel. Concert engineers are testing ways of using the most advanced data transmission technology, ATM, to improve the efficiency of the core network. ATM services will later be offered to Concert customers.

In the early days BT and MCI were responsible for marketing, pricing, sales and customer service in their own territories with MCI taking responsibility for the Americas.

That policy has since been diluted. In March, BT took a 25 per cent stake in Clear Communications, New Zealand's second largest operator. MCI already holds a similar stake in the New Zealand company. The deal strengthens Concert's position in the Asia Pacific region where it is weak compared with Europe or the UK.

Concert has since secured a deal with a subsidiary of NTT, Japan's largest telecoms operator, *for the distribution* of Concert services in Asias Pacific.

Concert's virtual network services – which use intelligent switches to provide expensive leased lines for the cost of conventional dial up calls and, as Mr Axton claims, for the first time enables a telecoms manager to take control of his or her international traffic – are among the most important in its portfolio.

The basic service provides for seamless voice and data links between countries together with a one-stop shop for installation, service and billing. It is available in 50 countries.

Its advanced features include the first VPN-based worldwide conferencing service and a calling card enabling customers to make low cost long-distance calls when away from the office.

According to Mr Axton, Concert's quality lies not in the ability to connect one network to another, a basic skill for telecoms operators, but in the systems integration which makes possible seamless services and network management.

He reckons that Concert has a two-year lead on the opposition. However, such is the pace of change in international telecoms that it will have no time to rest on its laurels.

■ **South Africa:** by Alice MacAndrew

Draft bill should set wires humming

Government is pushing through plans that include 4m new lines in five years

More than two years after coming to power, the South African government is finally taking steps to address the legacies of apartheid, which bequeathed the country deep disparities in the provision of telephone services.

In May, the government put new legislation before parliament which provides for the sale of a stake in the state-owned telecommunications carrier, Telkom, to an outside body. The draft legislation also prepares the ground for the installation over five years of 4m new lines. This will effectively double the number of lines across the country.

As the bill moves slowly through the parliamentary process, the ministry of posts and telecommunications has started negotiations with a number of foreign telecommunications operators and consortiums which are under consideration as possible strategic partners for Telkom.

The winning bidder will take a stake of between 20 and 30 per cent, at a price expected to range between $1bn and $2bn, and is expected to be announced by March 1997 when the draft bill has passed into law.

It is understood that a short list for the strategic partnership with Telkom has already been drawn up. One analyst predicts that the final list will include:

- A grouping of Deutsche Telekom and one other European operator (negotiations are still in progress);
- A consortium comprising SBC (formerly Southwestern Bell) Communications and Telecom Malaysia (regarded by some as being the best placed to be selected as the final winner);
- A grouping of Koninklijke PTT Nederland (KPN) and the Swedish operator Telia; and
- A consortium that includes either Bell Atlantic or AT&T.

The quicker the government moves to push through the necessary legislation to accommodate this, the better it will be for the telecoms network. The resources and expertise that the strategic partner to Telkom would invest in expanding and modernising the South African network are long overdue.

At present, the network is patchy and underfunded. In traditionally white areas there are an estimated 60 lines for every 100 inhabitants. But in black areas the average ratio is one in 100, with rural areas particularly badly serviced.

The provision of better telecommunications services is seen as central to South Africa's economic development. The government recognises that an efficient and widespread telecoms network is essential to boost the global competitiveness of the country's economy, and regards the development of the telecommunications sector as a means of job and wealth creation.

With this in mind, the emphasis in the draft legislation is on the creation of a countrywide universal service by the year 2000, and not on the introduction of competition into the telecoms market. The government has no plans to introduce competition until its target of universal service has been achieved.

In this respect, South Africa differs from developed countries around the world which are channelling their energies into meeting World Trade Organisation targets for the global liberalisation of telecoms.

The *starting* date *for* deregulation of the sector in South Africa will depend entirely on the progress of the sale of Telkom and the rate at which new lines are installed.

Meanwhile, the government has been negotiating with telecommunications equipment suppliers over the tender for contracts to install a million fixed lines across the country.

Five contractors were shortlisted and have submitted bids. They are Marples, the South African arm of NEC Equipment; Lucent, the former telecommunications equipment arm of AT&T; Siemens of Germany; Alcatel of France; and Ericsson of Sweden.

The government says it could award up to three contracts for the work, but it has not set a time for the decision.

There is, on the other hand, a time scale for the introduction of a regulating body. The draft bill now before parliament will establish a new regulator – the South African Telecommunications Regulatory Authority (Satra) – by the start of the new year. The bill also provides for the accelerated merger of Satra with the Independent Broadcasting Authority, which currently regulates the broadcasting industry, to create a regulator with responsibility for all both sectors.

Similarly, the bill provides for the department of posts and telecommunications to be restructured into a policy unit, responsible for co-ordinating the development of policy on posts, telecommunications and broadcasting, with a separate directorate for each area. This transformation will enable a distinction between policy, regulation and operations in these sectors.

Significantly, the new legislation lays the foundations for a universal service agency, reinforcing the government's determination to work towards the aim of universal access. The new agency will be there to ensure that the sector does not lose sight of these objectives.

PROFILE Cable and Wireless's new chief executive

Brown ready to ring the changes at C&W

Key executives from the corners of the Cable and Wireless empire were in London this week to hear Richard Brown, the company's recently appointed chief executive, deliver his preliminary judgements on the group's progress and prospects.

Since his arrival on July 1, Mr Brown has spent little time behind his desk at the company's Theobalds Road, London, offices. He has been "logging up air miles, fighting off 'flu, weathering jet lag and trying to keep up with the work back at headquarters" while acquainting himself with what he describes as "the most global telecommunications company I know".

C&W, the UK's second largest telecoms company, made profits of £1.34bn on turnover of £5.5bn last year. It has interests in some 50 countries. Its UK subsidiaries are Mercury Communications and mobile operator Mercury One-2-One.

Mr Brown, born in New Jersey 49 years ago, and educated at Ohio University in the American mid-West, is well known in US telecoms circles, but something of an unknown quantity in Europe. Indeed, before Dr Brian Smith, C&W chairman, offered him the job, he was a stranger to the UK.

He took over in unusual circumstances. The former chairman and chief executive had both been forced out after an acrimonious boardroom row. Merger talks between C&W and British Telecommunications, which would have created one of the world's largest telecoms groups, had collapsed.

Analysts had become increasingly gloomy about C&W's prospects, pointing to its dependance for the bulk of its profits on its 57.5 per cent owned subsidiary, Hongkong Telecom, and its perceived lack of a coherent business strategy.

Much, therefore, is expected of Mr Brown. The contrast with his predecessor at C&W, James Ross, is marked. Mr Ross came from the oil business while Mr Brown has 27 years of experience of senior roles in the telecoms industry. Mr Ross is austere and cerebral while Mr Brown laughs easily and often and favours sporting metaphors. Those who know him, however, say that his capacity for ruthlessness should not be underestimated.

Mr Ross favours consensus management, a style Mr Brown deplores: "I am bent more on action than strategy," he says sharply. "I understand the value of a strategic plan, but too many times people labour over the strategy to get it picture perfect, while failing on the execution. I admire intelligence but I believe the world has more smart people than effective people."

The pattern of Mr Brown's career suggests that he is both smart and effective. After leaving university, where he read both engineering and English, he joined Ohio Bell, a local telecoms company, working his way up through a variety of jobs on the services side.

> 'The winners of the future in this industry will not be the bigger players but the better players'

In his thirties, he became vice-president, engineering, with United Telecommunications, a company which evolved into Sprint, the third largest US long-distance carrier. While at Sprint he first became acquainted with C&W through joint work on transatlantic cable routes.

He moved from Sprint to the role of chief executive at Illinois Bell, the largest subsidiary of Ameritech Corporation, one of the seven "Baby Bells" which provide local phone services in the US, and then to vice-chairman at Ameritech itself.

While at Ameritech he took a leading role in preparing the groundwork for the US Telecommunications Act, passed this year, which effectively demolished the barriers between local, long distance and international services.

His last job before joining C&W was chief executive of H&R Block, the largest US tax preparation company and owner of the on-line information service CompuServe.

An unusual departure for a telecoms executive, perhaps, but Mr Brown says he was excited by the challenge of running a large, publicly quoted company. "What really lured me was the fact that CompuServe was there, so I could dabble in the on-line services industry," he says.

What seems to have impressed Mr Brown most in his whistle-stop tour of C&W is the quality of its global assets. It has operations in western Europe, eastern Europe, the Asia Pacific region, the US and the Caribbean.

Many analysts expect Mr Brown to seek to put together a big deal – a merger or strategic alliance – within the next few months. He, of course, is giving no detail of his intentions, but the broad outlines are clear. He intends to focus on growth, efficiency and identity, the last because he thinks C&W's potential is a well kept secret: "We must do a better job of raising our profile."

The key, however, is revenue growth: "A healthy bottom line begins with the top line. The sustainable health of a business is dependent on recurring top-line growth. The trick will be to focus on turnover without sacrificing bottom line performance."

"Cable and Wireless is big enough to be successful as an independent but small enough to be nimble. I think the winners of the future in this industry will not be the bigger players but the better players. It will be the ones who can move quickly, the ones who are tuned into their markets, the ones who perform."

He is willing to discuss some of his immediate objectives. Where C&W decides to remain in a particular country, for example, he wants it to put down deeper roots, by which he means selling a multiplicity of products rather than single service.

Richard Brown: 'Cable and Wireless is big enough to be successful as an independent but small enough to be nimble' *Lydia van der Meer*

"If we are in mobile, we should consider what it takes to be in wireline and what it takes to be in data or video. Margins are better if you sell sell multiple services into a single market," he says.

C&W is one of the world's largest mobile operators, but he wants to see better integration between its fixed wire and mobile services. In the UK, that will mean closer co-operation between Mercury and Mercury One-2-One. "No wireline company can be successful in the future if it does not have a wireless capability. The firms that divorce the two technologies are crippling themselves," he says.

He is keen to strengthen Mercury and to involve it more deeply in international activities, especially in mainland Europe. Funding for the UK operator will rise but at the expense of other investments. "You should not expect to see any big surprises in our capital expenditure programme for at least the next 12 months," he says.

Mr Brown says his immediate priority is to ensure that the interests of C&W shareholders are protected during the transfer of power in Hong Kong from the British to the Chinese government next year. "I have a great deal of confidence that can be arranged," he says.

"The only measure of business leadership success is how the shareholder benefits over time," he says. "My objective is to make the shareholder wealthy."

Alan Cane

■ **Germany:** by Michael Lindemann

DBKom bid paves way for market liberalisation

Diversification by rival companies could soon mark end of Deutsche Telekom supremacy

The German telecommunications industry is one of the most agitated sectors of Europe's largest economy, and this July's bid for DBKom, the telecoms network operated by the German railway group Deutsche Bahn, has stirred things up further. Indeed, the outcome – a victory for Mannesmann, the engineering and telecoms group – may have marked the most important step so far on the way to a fully liberalised telecoms market in Germany.

Winning the 49.8 per cent stake in DBKom puts Mannesmann, the one-time pipemaker that has engineered a remarkable transition into telecoms, at the head of a field of Germany's biggest companies, including Veba, Viag, RWE and Thyssen, all vying to compete against Deutsche Telekom.

However, while the competition for the stake DBKom has ended, a number of other significant decisions are expected in the coming months:

● What will Veba and Thyssen do to align themselves with the larger telecoms alliances which are shaping up on the German market?

Veba, the energy-based conglomerate, signed a memorandum of understanding in January with Mannesmann, which was supposed to lead to a merger of their infrastructures, including the D2 mobile phone network and Veba's electricity grid.

Little happened in subsequent months and now Mannesmann has secured the DBKom stake there is little prospect that the two Düsseldorf-based groups will be able to turn their initial flirt into a lasting embrace.

"That won't be possible any more," says Peter Mihatsch, the head of Mannesmann's telecoms unit. "Deutsche Bahn has insisted that the DBKom network infrastructure cannot be separated from the other services provided by DBKom."

Veba may still take a stake in DBKom itself. If that were to happen, however, it is clear that Mannesmann would be calling the shots and, as analysts point out, such a move would represent a significant setback for Veba.

The group is twice as big as Mannesmann in terms of sales, and launched its telecoms activities 18 months ago with the boast that it was determined to become the second biggest telecoms operator in Germany.

Instead Veba may seek to create an alliance with Thyssen, the steel and engineering group. The two each hold a 30.135 per cent stake in the mobile phone network E-Plus – a compelling reason to work together and a building block for joint future activities.

The advantage of such an alliance is that Veba would be able to maintain its leadership role, and Thyssen, which is looking somewhat lost since it failed to win the DBKom stake, would have a home for its existing assets – which include corporate network services, satellite communications and several other niche operations.

> A number of other significant decisions are expected in the coming months

● What will Daimler-Benz do? Jürgen Schrempp, as Daimler-Benz chief executive head of Germany's biggest company, is looking for new activities, having overseen a substantial withdrawal from aircraft building and the closure of AEG.

He has recently suggested that Daimler-Benz should expand into multimedia, a business which includes everything from the Internet to digital television.

There is speculation that Debis, the group's services and telecoms division, may join forces with AT&T to bid for Germany's fourth mobile phone licence which is due to be awarded next February and which will commence operations the following May. If Debis does submit a bid, it will herald a significant new force on the German telecoms market.

● Will Deutsche Telekom be allowed to introduce its controversial corporate-client rebates on November 1 as planned?

After months of wrangling the European Commission has allowed Deutsche Telekom to use the rebates – 10 months later than the company originally hoped – but has set a number of conditions.

The ministry for post and telecoms must, by then, have licensed at least two operators to provide liberalised telecoms services, such as data, across alternative telecoms networks belonging to electricity utilities.

Deutsche Telekom must also by then have begun talks with its competitors to ensure that they can access and exit – "break in" and "break out" – of Deutsche Telekom's network at reasonable prices.

Talks have begun, but executives at Veba and other operators suggest that an acceptable compromise is unlikely to be reached by November 1.

● Will Deutsche Telekom be forced to sell its cable network, the world's largest, connecting over 16m households?

A forced sale looks increasingly likely, as politicians in Brussels and Bonn realise that such a disposal would do much to enhance competition on the so-called local loop – telecoms parlance for the distance between a household and the nearest main telecoms cable.

In its 11th report, earlier this year, the Monopoly commission, a body advising the German government on competition policy, recommended that Deutsche Telekom sell the network – "the only available alternative infrastructure when it comes to fixed networks which has direct access to clients".

Among other things, the commission pointed to the UK experience, where liberalisation of the cable television network in 1991 brought the first significant competitive impulse to the local loop.

However, industry executives point out that it may be difficult to force Deutsche Telekom to sell the network now that it is nominally a private company. "We may have missed the right point to do this," says one executive. "Deutsche Telekom is now the legal owner of the network."

Others point out, however, that, while it may be "legally untidy" to force a sale, the private operators can collectively create so much political pressure that Deutsche Telekom is forced to give up the cable network.

PROFILE Deutsche Telekom

Doubts over earnings potential

Finding a telecoms analyst who will say anything on the record about the prospects of Deutsche Telekom, Europe's biggest telecoms operator, is like trying to stop your teenage daughter from going to a Boyzone concert.

For months analysts have refused to be quoted on anything about Deutsche Telekom either because their banks were part of the global consortia involved in placing one of Europe's biggest ever share issues – or they were desperately hoping to join them.

Muzzled as they almost all are by the need to adhere to guidelines set by the Securities and Exchange Commission, the agency which oversees the New York Stock Exchange, it has become harder to predict the course being steered by Deutsche Telekom.

Most analysts privately admit that Deutsche Telekom, the world's third largest telecoms operator, is well placed in a global telecoms industry with impressive growth prospects. The group has a virtual monopoly on Europe's most lucrative market and will, despite claims by fledgling competitors such as Mannesmann, be hard to dislodge.

It is also, for example, Germany's second biggest property owner with an impressive real estate portfolio, much of it in prime sites in city centres across Germany.

As a state-owned company Deutsche Telekom had no incentive to extract profits from these assets but there is every indication that the real estate has considerable earnings potential if properly managed.

And as Ron Sommer, chief executive, likes to boast, the company also owns the world's largest ISDN network, the broad band network needed for basic interactive services such as video-on-demand. One in three ISDN connections around the world is in Germany.

Deutsche Telekom is also part of Global One, a powerful three-way global telecoms alliance with France Télécom and the US carrier Sprint. Global One has begun operations earlier than expected and is likely to provide stiff competition for Uniworld and Concert, the two older alliances.

That said, uncertainties hang over Deutsche Telekom's future, particularly as it will have to face a fully liberalised market from January 1, 1998 likely to attract carriers as diverse as US giant AT&T and Singapore Telecom.

A study by Barclays de Zoete Wedd, the only leading investment bank not bound to Deutsche

Ron Sommer, Deutsche Telekom's chief executive

Telekom through one of the consortia handling the issue, sheds light on some of the company's shortcomings. Worst of all, Deutsche Telekom carries with it a debt mountain of more than DM100bn, making it the 24th largest debtor in the world, behind Argentina and just ahead of Turkey on a league table of the world's leading debtors.

The same study points out that Deutsche Telekom should be able to generate free cash flow, after existing investment commitments, of DM26bn over the next five years. That will help the company run down the debt mountain, but as competition grows, interest payments will represent a considerable burden.

On top of that about 50 per cent of Deutsche Telekom's workforce are civil servants with jobs for life and are the most expensive employees in the European telecoms industry. On average they cost DM79,000 last year – 25 per cent more than the average across Europe, the BZW study says.

Mr Sommer has said he wants to shed about 40,000 jobs to get the workforce down to 170,000 in 2000. That would enable him to raise per capita productivity to levels being reported by leading competitors such as AT&T and BT.

Shedding so many people is likely to be expensive, partly because of civil servants' generous pensions allowances. And already there is speculation that Mr Sommer will have to trim his workforce further still, possibly shedding another 30,000 jobs and incurring higher charges.

Other factors are likely to diminish Deutsche Telekom's earnings potential.

Tariffs were rebalanced earlier this year making some calls cheaper. VAT will no longer be passed on to customers and business clients have been offered discounts of up to 39 per cent – a range of measures which will drag down the results. Accordingly, the BZW study forecasts that it will be 1999 before Deutsche Telekom's earnings exceed the DM5.3bn net profits reported last year.

Finally, Mr Sommer will have to contend with an increasingly aggressive European Commission, keen to ensure that competition in Europe's biggest telecoms market is taken seriously.

He has trouble enough with Wolfgang Bötsch, the German minister for post and telecoms, who is still trying to box through a liberal new telecoms law which has been hailed as "courageous" by organisations such as the American Chamber of Commerce.

Karel Van Miert, the EU's competition commissioner, is not located within a stone's throw of Mr Sommer's office and is likely to be more difficult still. If Brussels gets its way Deutsche Telekom may face an harsh regulatory regime which could further depress its earnings.

Among measures that Mr Van Miert is considering is a forced disposal of Deutsche Telekom's cable TV network, the world's largest. How that will happen, given that Deutsche Telekom will be partially privatised before the end of the year, remains to be seen.

If the company is forced to sell it can further reduce its debts. On the other hand it faces yet stiffer competition.

Michael Lindemann

Leading world debtors

Rank	Country/company	Debt ($bn)
1	US	4,964
2	Japan	4,153
3	Germany	1,382
4	Italy	1,250
5	France	669
24	Deutsche Telekom	67
25	Turkey	66

Source: World Bank, annual report

Main lines per employee

Company	Cagr*1999-96 (%)	1995	1996
Detsche Telekom	8.4	184	200
France Télécom	3.7	215	223
BT	13.2	197	209
Telecom Italia	2.1	276	283
Telefonica	-1.6	154	162
KPN	6.9	199	209
Tele Danmark	4.3	195	202
Portugal Telecom	n/a	188	207
OTE	7.8	210	221
Europe	5.9	201	213

*Compound annual growth rate — Source: Annual reports, BZW estimates

Wolfgang Bötsch, minister for post and telecoms — Action Press

■ **German telecoms regulation:** by Michael Lindemann

Wanted: regulator with teeth

Rival providers and users both fear that controls on privatised DT will be too lax

"The sort of regulator we need is somebody who wakes up every morning and asks: 'how can I bite Deutsche Telekom in the leg?'"

If there is to be any real competition on the German telecoms market, argues an executive at a US telecoms group, then a pugnacious regulator is essential.

Experience in the UK and the US, two of the world's most liberalised telecoms markets has shown, the executive says, that the former monopoly operators – BT and AT&T – were not regulated aggressively enough.

So far, so good. However, many executives in the German telecoms industry admit privately that Germany is unlikely immediately to learn from mistakes in the US and the UK.

Deutsche Telekom, they point out, has powerful political connections and liberalisation in Germany tends to be piecemeal, rather than aggressive.

While the new telecoms law passed in July has attempted to create a liberal framework for the telecoms market after January 1, 1998, much more will depend on the 17 directives which Wolfgang Bötsch, the minister for post and telecoms, still has to finalise.

The directives will establish how telecoms networks can be connected with each other, and, most importantly of all, what it will cost to hop from one network to another – the so-called interconnection fees. Until they know what such connections cost, private operators say they cannot make any proper business plans.

Arguably the most important question of all, however, is who will head the new regulatory authority which will oversee competition in Germany's telecoms market.

It is here that executives from other leading German companies like Veba, Mannesmann and Viag are likely to be most disappointed.

Much suggests that the president of the new regulatory authority, who will be appointed by the government in the first half of next year, may well be a politician.

If that is the case, industry executives say, the new regulator is unlikely to have the necessary management experience to take on companies such as Deutsche Telekom – Germany's fourth biggest in sales terms.

Among the possible regulators the most likely candidate – and the one who most frightens industry executives – is Arne Börnsen, a deputy from the Social Democrat party (SPD).

As head of the parliamentary committee on post and telecoms since 1994, Mr Börnsen has developed plenty of telecoms expertise, executives say, but will be inclined to prefer compromises pieced together behind closed doors to taking an aggressive stance against Deutsche Telekom.

> Executives point out that DT has powerful political connections

"The idea of putting a politician in charge of the regulatory authority is ridiculous," says an industry executive.

If the government does appoint a politician to head the regulatory authority, there will also be considerable pressure from the SPD to ensure that Deutsche Telekom is not treated too harshly.

Among other things, the party has close links with the German Postal Union, the powerful trade union which counts about 70 per cent of Deutsche Telekom's workforce among its members.

Aside from that, Rudolf Scharping, the leader of the SPD's parliamentary party, warned during a recent meeting with the American Chamber of Commerce, that Deutsche Telekom would need to have a competitive advantage over the next "three to five years" to ensure that share issues following the one scheduled in November will bring in sufficient revenues for the government.

The comments caused considerable dismay, listeners reported.

There is evidence from other quarters also that the regulatory regime may not be sufficiently harsh to give the fledgling private operators a proper foothold in the telecoms market.

In a recent interview, Peter Mihatsch, who heads the telecoms activities at the Mannesmann engineering group, said he had received repeated indications from Bonn that both the finance ministry and the ministry for post and telecoms were worried about the stock exchange listing in November.

That anxiety is likely to persist beyond November and may well last until at least the second issue of Deutsche Telekom shares, expected in 1998.

It could mean that the regulatory regime is again softened to ensure that Deutsche Telekom keeps as much business as possible. Given that the government will still own 66 per cent of Deutsche Telekom after the second issue, some executives fear there will never be a proper incentive to regulate Deutsche Telekom aggressively enough.

There is, meanwhile, only limited evidence so far of so-called "asymmetrical regulation", the phrase telecoms executives use to describe a regulatory regime tipped against incumbent operators like Deutsche Telekom.

Prices offered by operators will be regulated if the operators in question have more than 25 per cent of the business within a certain licence area – the city of Hamburg, for instance – or where the operator has more than 4 per cent of a certain market – data transmission, for example.

Initially, the only operator is likely to fall within both those categories is Deutsche Telekom.

Analysts are agreed, however, that it is not likely to take long for bigger companies such as RWE and Veba to make the necessary inroads and that these restrictions alone will not put sufficient pressure on Deutsche Telekom.

■ **Finance:** by Nicholas Denton

A hot topic among bankers

The spate of telecoms sell-offs will keep investment banks busy for years

"If I was starting today, telecoms is what I would focus on," says one rueful generalist investment banker. "It's the one sector in which you know deals are going to happen. If you're the head of a telecoms group at a bank, you're more or less guaranteed seven figure compensation."

Telecoms is hot. As befits Europe's largest privatisation, the flotation of Deutsche Telekom will generate the largest pot of fees for investment banks: about £200m for Goldman Sachs and the other members of the consortium.

Although the sale has been described as "the privatisation to end all privatisations", it is just the start of a refashioning of the industry that will keep investment banks busy for years.

The year zero for telecoms banking was 1984. The pattern of telecoms privatisation – a public offering to retail investors combined with a sale to domestic and foreign institutions – was set with the sale for $5.2bn of 51 per cent of British Telecom. And, in the US, AT&T was broken up into a long-distance operator, retaining the name and seven regional Bell operating companies, paving the way for competition.

But it was only in the 1990s, driven by deregulation and technological development, that telecoms activity hit a consistently feverish pace. One after another, Malaysia, Mexico, Singapore, Thailand, Pakistan, Holland and Denmark have sold stakes in their state-owned telecoms operators. Apart from Deutsche Telekom, Stet of Italy will also be privatised later this year, and even France Télécom, long a hold-out, has appointed privatisation advisers.

Among significant countries in Europe, only Sweden, Switzerland and Finland have still to decide on telecoms privatisation and appoint investment banks. Although only about a quarter of state holdings in telecoms companies have been divested, pessimists already forecast the end of the classical telecoms privatisation.

Most investment bankers are unconcerned. In the longer term, as existing players consolidate and insurgents appear, fees will come from advising on mergers and acquisitions, or raising finance for new companies.

Some of the smaller privatisations – of companies whose future alone is uncertain – have already been carried out by strategic sale. Consortia of large telecoms companies have bought into the national operators of Argentina, New Zealand, Venezuela, Peru, Hungary, the Czech Republic and Belgium, among others. More takeovers will follow.

New territory for investment bankers is opening up as larger operators form alliances – such as the Atlas joint venture between Deutsche Telekom, on which Morgan Stanley advised – or link up with second network providers as BT has done with RWE and Viag in Germany. And technological development – the convergence of telecoms and media industries, the spread of cellular telephony and Internet use – is sparking yet more activity.

So which banks will benefit from the telecoms boom?

Goldman Sachs is the preeminent house for privatisation offerings. It has one of the best established telecoms analysts in Robert Morris and one of the biggest names in European telecoms banking in Scott Mead. Rivals suggest Goldman's very strength in privatisation offerings will prove a weakness as other sorts of deals proliferate. But Goldman is the prime mover in "communicopia" – the industry which will result from the convergence of telecoms, media and computers – and is well structured to handle the growing number of Internet deals.

Morgan Stanley has suffered from perceptions that its close relationship with AT&T may colour its advice to others and that its relative weakness in equities makes it unsuited to lead privatisation offerings. However, its expertise in high-yield securities positions it well to arrange financing for the new entrants into the telecoms market. And its advisory track record will allow it to capitalise on the growth in telecoms M&A. It has done so already: the first privatisations in western Europe by strategic sale – Belgacom and Telecom Eireann – were organised by Morgan Stanley.

Merrill Lynch is relatively new to telecoms banking, but its distribution network has won it the post of global co-ordinator on Telefonica and left it well-placed to win the same role on France Télécom. In M&A, Merrill has signalled its ambitions by bringing in Thomas Casey from Skadden Arps to build up its European telecoms practice.

Three other investment banks, Salomon Brothers, Lehman Brothers and Bear Stearns, are strong in the US. Salomon Brothers' telecoms group, under John Otto, advised Pacific Telesis when it was taken over by SBC Communications, a fellow RBOC. But the three have yet to make an impact outside the US.

Of the European houses, Warburg gained an early lead through its lead role on the BT privatisation. But the troubles leading to the takeover by Swiss Bank Corporation also prompted the departure of James and Peter Golob, the bank's leading telecom analyst and banker respectively. They went to Deutsche Morgan Grenfell, which is acting as adviser to the French government on telecoms privatisation and global co-ordinator on Deutsche Telekom.

The new UK investment banking champion is BZW, which captured the Stet mandate. By default, according to the UK bank's detractors, who claim its competitors suffered conflicts of interest. But the Italian telecoms privatisation will give BZW the track record it needs to win further deals.

The premier league's final, and most intriguing player is N.M. Rothschild. Tony Alt and his colleagues at the UK merchant banking boutique have extensive telecoms contacts through their work as privatisation advisers. Through its alliance with ABN Amro, which brings equity distribution to the party, Rothschild wants to convert these relationships into the lucrative lead roles in selling equity.

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■ **Italy:** by David Lane

'Telefonino' embraced with vigour

A commercial battle lies behind soaring figures for the take up of mobile telephony

Any time, any place, anywhere: mobile phones have caught on spectacularly in Italy

Rarely shy about conspicuous consumption, and great talkers, Italians have taken enthusiastically to mobile telephony: the "telefonino" (mobile telephone) has caught on quickly and spectacularly. It has become a standard accessory from top to bottom of the social scale, brandished on trains, buses and street corners, in restaurants and at the wheel of moving cars.

Large scale use of mobile telephony is good news for Italy's two mobile telephone companies. And this summer Telecom Italia Mobile (TIM, the operator in which Stet, the state telecoms holding, has a 57 per cent stake) and Omnitel (the private sector, second GSM operator in which Olivetti has a 41 per cent interest) have been deluging the public with advertising and special offers aimed at boosting subscriber numbers further.

TIM had 3.7m analogue users on its books at the end of June, together with almost 0.8m GSM digital subscribers: it is expected to add a further 0.7m by year-end 1996. While TIM's increase in subscribers will be more modest than the 72 per cent achieved during 1995, it should nevertheless be a healthy 35 per cent.

Omnitel, whose commercial operations started last December after two months of trials, had just over 0.1m subscribers when it was able to offer national roaming in March. Its numbers had risen to 0.3m by the end of June, and the company expects to be serving 0.4m by the end of this year and 1.0m at the end of 1998.

A bitter commercial battle lies behind these figures. TIM has enjoyed significant advantages over its private sector rival, launching its GSM service early last April on the back of its large analogue subscriber base and with an eight-month lead over Omnitel. The state-controlled telephone company has fought tooth and nail to protect its dominant position.

Both the European Commission and Italy's own competition authority unsuccessfully challenged TIM's lead, arguing in favour of a level playing field for both GSM operators.

However, while Omnitel was constructing its network from scratch, completing its first base transceiver station in June last year, TIM was building an unchallenged position in GSM. Moreover, not content with its own booming business, the state-controlled operator tried to obstruct Omnitel, contesting the legality of the private sector company's experimental operations last autumn and the geographical coverage that it claimed.

The eight-month lag in competing with TIM's GSM services has been a serious handicap for Omnitel. In addition, it carries the burden of a L750bn licence fee. And while the company underlines that a L1,800bn credit facility agreed last year was 40 per cent over-subscribed, it lacks TIM's financial muscle. With almost no revenues last year, Omnitel lost L128bn. In contrast, having been spun off into a separate company in mid-July 1995, the state mobile telephony operator reported L350bn net profit on L2,845bn revenues in less than six months.

But in a booming market, even being number two brings rewards. Omnitel expects to break even in 1998, its third year of operations, and to profit from an expansion of mobile telephone services that could bring penetration to 50 per cent of the population over the next 5-7 seven years. Indeed, in a recent report on Stet, TIM's parent, Lehman Brothers said it expects Omnitel to have 24 per cent of the market by the year 2000, against TIM's 68 per cent.

There is even space for a third operator: Lehman Brothers forecast that a newcomer can expect to have 8 per cent of the market in 2000. That this could be an appetising morsel is underlined by the interest that the competition for the PCN licence at 1.8Ghz frequency, to be held this autumn, is expected to generate.

One contender should be Albacom Industriali, a joint venture linking Albacom, a company in which BT has a 50.5 per cent stake and treasury-owned Banca Nazionale del Lavoro 49.5 per cent, and the Mediaset television company of former prime minister Silvio Berlusconi. The venture was finalised at the end of May, Albacom taking a 70 per cent interest and Mediaset 30 per cent.

Snam, the operator of Italy's national gas grid, is expected to join soon, adding its advanced communications network to the assets provided by the other three partners.

Ubaldo Livolsi, Mediaset's managing director, believes that a third mobile telephone operator will have greater opportunities than the second GSM operator. He says that PCN will be a technological and commercial leap forward, offering real potential for replacing fixed telephony thanks to a combination of competitive tariffs and a high signal quality that will be markedly better than GSM.

"Albacom should be the front-runner for the third operator's licence. The partners have enormous technological knowhow, operational and managerial competence, and great financial strength," says Mr Livolsi.

Albacom lost the tussle for the telecoms business of the Ferrovie dello Stato (FS, Italian state railways) at the beginning of August, however. This went to a consortium of Olivetti and France Telecom in a competition that also involved America's AT&T and Japan's NTT. The FS will spin off its telecoms assets into a separate company in which the Olivetti-France Telecom consortium will have a 70 per cent stake while it will hold 30 per cent.

The big prize, however, is the third operator's licence which could be awarded by early next year. Meanwhile, the autumn promises ructions. Stet, which controls Telecom Italia, the fixed telephony business, as well as TIM, and whose privatisation has been long promised, will be at the centre of the storm.

In early August, the government announced plans for the sale of Stet between 1 February and 31 March next year. There will be a stable hardcore group of predominantly Italian shareholders, but the treasury ministry will also have special powers through ownership of a golden share.

Separation of fixed and mobile telephone services will not be allowed, although the government is seeking a limited break-up for Stet. Its Seat publishing business is to be sold separately, while Sirti (installation engineering), Finsiel (information technology) and Italtel (manufacturing) may also be sold.

The plan for privatising Italian telecoms seems a botched job. Romano Prodi's centre-left government ducked an important issue when re-appointing Stet's heel-dragging top managers in June. And its plans fall short of aiming for a focused, competitive industry.

Even so, the plans are under attack from the hard-left Partito Rifondazione Comunista on whose support the government depends: the party is committed to block telecoms privatisation. And there will be no relief from the extreme right where the neo-fascist Alleanza Nazionale considers telecoms a strategic national asset.

In July the government announced draft legislation for establishing a telecoms regulatory authority – a precondition for privatisation – and for reorganising the sector.

Privatisation's opponents will find ample scope for filibuster. Given many missed deadlines in the past, the odds are heavily against Stet's sale next spring.

■ **Russia:** by John Thornhill

A new rival steps into the game

The emergence of a competing company could attract additional investment

In Soviet times, Russians used to joke about the country's leaders under their breath. Today they satirise New Russians, who have made a quick fortune out of the country's capitalist revolution and flaunt their wealth outrageously. The latest joke concerns that most essential accessory for every self-respecting plutocrat: a mobile telephone.

Three are New Russians sitting in a restaurant. One pulls out a wafer-thin telephone and starts talking. Not to be outdone, the second whispers into his lapel explaining that a miniature telephone is sewn into his suit. The third starts juddering uncontrollably and makes chugging noises.

"What's wrong with you?" his colleagues ask.

"I'm receiving a fax."

The liberal use of mobile phones is the most visible sign of how the strictly-controlled Soviet communications system has begun to be replaced by an astonishing array of cellular, wireless, fibre optic and satellite telephone networks. It is estimated that the number of cellular phone subscribers in the country will expand from 100,000 at present to 1.2m by the end of the decade.

This explosion of telephone use has not been only among the new élite. As Russia has re-integrated itself into the world economy, the number of international calls has rocketed. In 1993, there were just 1,000 international lines in the country. That has expanded to 45,000 today.

Russia may still be perceived as an economic and political risk. But with a largely-urbanised population of 150m, Russia is emerging as one of the most interesting developing markets for some of the world's biggest telephone companies, such as Deutsche Telekom, France Télécom, and US West.

Miles Davenport, head of US West's Moscow office, praises the ministry of telecommunications for the speed with which it has introduced regulations allowing a new generation of operators to emerge.

US West has so far invested $35m in eight telephone projects and has received a $200m loan facility from the US Overseas Private Investment Corporation to fund further developments.

"Russia is in the top five developing telephone markets for sure, maybe even in the top three," says Mr Davenport. "Asia has so far won most of the attention but Russia is in with a shout."

At present, the Russian telephone industry is still dominated by Rostelekom, established as an independent company after being broken out of the Russian ministry of communications in 1992. Rostelekom controls almost all the long distance and international lines in the country and has become an extremely profitable business after jacking up prices towards world levels.

In 1994, Rostelekom made pre-tax profits of $204m on revenues of $553m. ING Barings, the Dutch banking group, estimates that the company will have increased pre-tax profits to $357m last year.

Rostelekom is ploughing much of this money back into updating its network and has formed a number of joint development projects with western telecoms companies. It has just completed the second phase of a microwave and fibre optic trunk line reconstruction project, linking 25 population centres stretching between Moscow and Nakhodka in the far east and then across the Sea of Japan.

But the biggest debate in the Russian telephone industry concerns how a rival company, Svyazinvest, might be allowed to develop as an alternative long-distance and international operator to attract additional investment and stimulate competition.

Svyazinvest could be one of the most exciting opportunities to arise in the global telecoms market recently, although some industry observers doubt the wisdom of allowing competition to emerge at such an early stage in the development of the Russian telephone industry.

Most national telephone networks have been built by monopoly operators, which have channelled "super-profits" from lucrative regions into extending lines into less attractive rural areas, they suggest.

At present, the recently-created company is just a holding company for the state's 38 per cent shareholding in 85 regional telephone operators with a valuable licence for long-distance and international calls. But the longer-term intention is to use Svyazinvest as an investment platform enabling it to develop a network to compete with Rostelekom.

To this end, the government is trying to sell 25 per cent of the company to a western strategic investor this year, with a further 24 per cent to be sold to international institutional investors in the future to raise more capital for expansion.

But the project has raised a vast array of regulatory, legal, financial and operational concerns which have deterred many western companies. The biggest uncertainty is how Rostelekom will react to the upstart competition, especially considering Svyazinvest will have to rely on it to route many of its calls abroad.

A previous deal to sell the 25 per cent stake to Stet, the Italian telephone company, collapsed last December amid much acrimony after the two sides failed to agree the details of the deal.

Stet finally balked at paying $630m for the 25 per cent stake and making a further $770m of investments in developing the country's telecoms infrastructure.

Nonetheless, Stet may well be back in the picture later this year, while Deutsche Telekom, AT&T, and some private investor groups are also believed to have expressed an interest.

Alfred Kokh, the deputy privatisation minister, said the Russian government was hopeful of reviving the project this autumn – although he suggested the price would have increased from last year.

But the Russian government will have to do a better job of setting up the regulatory framework if it wants a successful sale of Svyazinvest. It will have to determine whether Svyazinvest is to be an investment holding company or an actively-managed operator and clarify issues about tariffs and competing licences.

"If the government does not address these basic regulatory issues in the next couple of months and just wants money in the treasury then it runs the risk of repeating the same fiasco as last year," says one telecommunications analyst.

Meanwhile, other foreign telephone companies will continue to develop their patchwork quilt of local operating networks. There is a long way to go. Russia has just 17 telephone lines per 100 people compared with 60 lines in the US.

■ **The UK:** by Alan Cane

High drama dominates

An abandoned merger almost created one of the world's biggest telecoms groups

It has been an extraordinary 12 months, even for the volatile and fiercely competitive UK telecoms industry. Some of the year's developments would not have seemed out of place in a TV soap opera.

British Telecommunications, the UK's dominant operator, and Cable and Wireless, parent of Mercury Communications, its main competitor, came close to a merger which would have created one of the world's largest telecoms groups with a market capitalisation of £33bn and unprecedented geographic depth and spread.

It would have been a unique deal: C&W would have acquired BT through a reverse takeover to sidestep regulatory problems involving the C&W subsidiary Hongkong Telecom. The negotiations foundered for a multiplicity of reasons – price, regulatory and competitive concerns and cultural differences.

The talks were partly precipitated by extraordinary boardroom goings-on at C&W. These resulted in the dismissal at the turn of the year of both Lord Young of Graffham, the group's ebullient chairman, and James Ross, its cool and analytical chief executive.

The two men had quarreled publicly and embarrassingly over the direction of the group. The non-executive directors acted swiftly to end the strife, asking former director Dr Brian Smith, chairman of BAA, to take over as chairman and finance director Rod Olsen to hold the fort as acting chief executive.

The search for a new chief executive for the group ended in May with the appointment of Richard Brown, a former vice-chairman of Ameritech, one of the larger US local phone companies and most recently president of H&R Block, a tax consultancy and owner of Compuserve, the online information service.

The attention of most of the industry, however, was captured by the long-running battle of words and wits between BT, led by its new chief executive, Sir Peter Bonfield, and Don Cruickshank, the telecoms regulator, over the future regulation of the industry.

Many of BT's prices are capped by a formula designed to force the former state-owned monopoly to greater efficiencies and to protect customers from undue price rises. The formula, the rate of inflation minus 7½ percentage points, is reviewed every five years. Mr Cruickshank had been holding an industry-wide consultation to decide the formula to apply from the autumn of 1997 to 2001.

But early on, he indicated that he favoured tough measures – inflation minus 5-9 percentage points to apply to 60 per cent of BT prices. He also demanded powers enabling him rapidly to identify and outlaw unfair trading practices.

BT was horrified by both proposals. It argued that the existing formula was depressing both profitability, and its share price and that the new efficiencies Mr Cruickshank was demanding were unobtainable.

It warned of a "cash starved industry littered with business failures" if the price controls were applied, pointing out that BT's competitors would find it difficult to survive on the thin profit margins left after undercutting BT's prices. It also said the fair trading proposals were unjust, allowing Mr Cruickshank to appoint himself judge, jury and executioner while BT would have no recourse to an independent arbiter.

When regulator and regulatee disagree on such matters, the only course is a referral to the Monopolies and Mergers Commission, an unpopular move as it absorbs management time and creates damaging uncertainty in the industry. Mr Cruickshank used it for the first time this year, however, after he and BT failed to agree on who should pay for the costs involved in number portability, a customer's right to retain the same phone number when changing operator.

The MMC essentially backed the regulator, ruling that BT should bear the lion's share of the costs. The judgement is likely to benefit cable companies and other telecoms operators in persuading customers to move away from BT.

No clear sign emerged that the MMC would back Mr Cruickshank on the question of BT's prices and the fair trading condition. But its views were never tested. Mr Cruickshank, who maintained that he did not expect the issue to go to the MMC, took some of the steam out of BT's attack by setting the value of X at 4½ percentage points and applying it chiefly to residential and small business users. At the eleventh hour, BT accepted the pricing formula and, after some modifications, the fair trading condition. An important point, however, is the view of both Mr Cruickshank and BT that this will be the last phase of regulation in UK telecoms.

After 2001, it is expected that competition will be sufficiently well developed to make price control unnecessary. The Office of Telecommunications will then adopt the role of market policeman rather than regulator.

Competition continues to intensify, helped by government moves including the decision to remove the final vestiges of monopoly power from BT and Mercury with the ending of restrictions which prevented other carriers from owning and operating their own circuits for international calls.

The list of companies seeking international licences includes AT&T, the largest US long-distance operator, which is building up its UK presence, and Energis, the national operator owned by the National Grid.

Although the cable companies, in particular, are winning customers from BT at the rate of several tens of thousands a month, BT's market share has declined only a few percentage points in the past decade. This is largely because of its dominance in the "local loop", the connection between office or home and the exchange.

A number of companies, of which Ionica of Cambridge is the best known, are beginning to offer an alternative local connection in the form of a fixed radio link. The technology is low cost, effective and allows an operator to trade profitably with a 5 per cent market share or less. This "revolution in the local loop" could help reshape the UK telecoms market.

■ **Eastern Europe:** by Kris Szaniawski

The state's grip loosens

Foreign interest is picking up as privatisation schemes get under way

Strong growth, stabilising economies and improving legal structures are raising investor confidence in central and eastern Europe. Foreign direct investment in the region exceeded $11.3bn last year, nearly double the amount in 1994, according to European Bank for Reconstruction and Development estimates.

Much of that foreign investment is going into telecoms. This is not surprising as the average telephone density in eastern Europe is still only about 15 lines per 100 inhabitants, less than one-third of that in the European Union, and waiting lists for new phones often run into the millions. Hungary and the Czech Republic have led the way in the investment drive by selling stakes in their national operators.

Hungary became the first east European country to yield state control of its national telecoms operator when it sold a majority stake in Matav last December.

MagyarCom, a joint venture equally owned by Deutsche Telekom and Ameritech, paid about $850m to the state privatisation agency for an additional 37 per cent of Matav, giving it a majority 67-per-cent holding. In late 1993 Deutsche Telekom and Ameritech had already paid $875m for a 30 per cent stake in Matav. In the Czech Republic a 27 per cent stake in the national operator, SPT Telecom, has been awarded to a consortium led by PTT Netherlands at a cost of $1.45bn.

Others are expected to follow. The Polish government announced this June that it would soon begin privatising the state-owned national carrier Telekomunikacja Polska (TPSA), probably starting with the sale of a minority stake next year. It is thought likely that the government will opt for a flotation of TPSA in combination with the sale of a stake to a strategic investor.

In Hungary and the Czech Republic, stakes in the national operators were sold solely to strategic investors, but the political climate in Poland is not thought to favour the sale of a significant stake in a strategic Polish company to a foreign owner.

The administrations in Bulgaria, Slovakia and Slovenia have also recently announced plans to sell off minority stakes in their telecoms operators, although it is not clear how much these are being driven by a need for cash and how much by a desire to implement a more liberal telecoms strategy.

While the growth potential in the fixed-line and cellular telephony sectors remains large, the problems of tapping this potential are significant.

Central and eastern European telephone operators, ranked by turnover					
National operator	Turnover ($m)	Pre-tax profits ($m)	Number of main lines	Main lines per employee	Year
1. Telekom Polska	2124.48	361.00*	5,727,597	78.29	1995
2. SPT Telecom	999.51	265.46	2,480,000	95.03	1995
3. Matav	941.00	2.12	1,892,891	109.42	1995
4. HPT Croatia	648.47	99.81	1,146,000	68.21	1994
5. Rostelecom	647.08	100.77	–	–	1994
6. Rom Telecom	315.27	15.74	2,805,000	55.93	1994
7. Telekom Slovenije‡	307.00	23.00	–	–	1995
8. Slovak Telecom	286.23	113.50	1,118,000	72.75	1994
9. BTC	188.26	46.80	2,487,000	95.54	1994
10. Lattelekom	118.24	6.00	764,000	109.14	1994
11. Lietuvos Telekomas	111.25	25.00	941,000	94.48	1995
12. Eesti Telefon	70.84	6.65	411,000	100.54	1995
BT	22,052.00	4,225.00	27,070,000	196.80	1994/95

* The profit figure for Telekom Polska is net profits. ‡ Telekom Slovenije supplies its figures ready converted from local currency to US$. It is not clear what exchange rate was used. The profit figure for Telekom Slovenije is 'retained' profit rather than pre-tax profit. The figures for the league are all supplied by the operators and converted to US$ at the 1995 annual average rates. Source: CIT Group

Leading the way: the Czech Republic has been among the first to sell stakes in its national operator

A common pattern across eastern Europe has been to retain operators' monopolies on the long-distance and international markets and to initially open up local services to competition – regional licences have been awarded in Hungary, Poland and the Czech Republic.

In Poland, for example, TPSA's monopoly of the long-distance market will probably be retained until 2002 and the international monopoly even longer, in order to prop up its value.

Meanwhile, fixed local-network licences were awarded as early as 1990, although the predominantly small-scale operations have so far made little impact on the market. The new licensees have complained about high interconnection fees and a lack of co-operation from the national operators.

More inroads may be about to be made in the Hungarian market, where the two largest independent local operators – one owned by a subsidiary of French company Compagnie Générale des Eaux (CGE); and the other by US-based company HTCC – signed contracts with Ericsson in July for the implementation of large scale fixed radio access networks based on the advanced Digital European Cordless Telecommunications standard.

These independent operators are committed to increasing their line totals by almost 20 per cent a year and so have turned to radio access technology for a quick solution.

According to telecoms consultants CIT, one of the biggest risks for outside investors in eastern Europe is the unpredictable behaviour of governments and state-owned telecoms operators.

For example, France Télécom and Ameritech are still seeking compensation from the Polish government after missing out on a GSM licence earlier in the year.

Attracting capital through joint ventures is an alternative to privatisation, although joint ventures have tended to be confined to projects targeted at the business community, such as digital overlay networks, satellite links and mobile services. Western financial institutions have been ready to fund these kinds of value-added services because of the relatively quick returns than can be made on them.

Cellular joint ventures are plentiful across the region, contributing to that sector's rapid expansion. According to FT Mobile Communications estimates, the number of cellular subscribers in eastern Europe grew by over 88 per cent during 1995, by comparison to about 59 per cent in western Europe. The number of subscribers now stands at about 750,000.

Average penetration levels are still low by western standards but are rising fast – Hungary now has more cellular telephone users per head than does Belgium.

Users are expected to expand rapidly as more licences are granted. Most east European countries now have a cellular network based on the NMT-450 analogue standard, but a rash of more advanced GSM digital standard licences are being awarded to stimulate competition and boost service quality.

Whereas two years ago there were practically no digital cellular systems in the region, there are now 10 GSM networks in operation. Since the beginning of the year two GSM licences have been awarded in Poland and two in the Czech Republic and further GSM licence awards will soon be announced in Romania and the Slovak Republic. A second wave of digital licences based on the DCS-1800 standard is also anticipated in the near future.

■ **France:** by David Owen

Flagship's new course

Sweeping change is on the way following the passage of two liberalising laws

The passage of two new laws has made 1996 a landmark year for telecoms in France.

One allowed for the conversion of France Télécom from an arm of the state administration into a joint stock company, paving the way for the sale early next year of a first batch of the telephone operator's shares. The other set out a new regulatory framework for the country's FFr117bn (£14.81bn) telecoms market, which – like other EU markets – is to be opened to competition in 1998.

"This date will mark an unprecedented opening of the telecommunications market," says Jean-Marie Messier, chairman and chief executive of Compagnie Générale des Eaux, which hopes to use the new regime to branch out into fixed telecoms markets. "In a single step, the 90 per cent of the market that is inaccessible today will be opened to competition."

The France Télécom reform was expected to trigger hostile reaction from trade unions worried about the effect of partial privatisation on jobs. But their protest fizzled in the face of government assurances that the company would continue to give its employees civil servant status, with accompanying job security rights, until 2002.

As it turned out, the government had more trouble from the opposition Socialists and Communists, who fought the plan vigorously, submitting 500 amendments and forcing prime minister Alain Juppé to resort to a special parliamentary "guillotine" procedure to push the bill enshrining it through the lower house.

The reform, under which France Télécom is due to be incorporated on January 1 1997, should enable the group to seal strategic alliances and strengthen its competitive position. It should also enable it to raise funds for the massive investments required in the developing markets of telecoms and multimedia.

The government has promised to retain a 51 per cent stake in the world's fourth-largest telecoms operator in terms of 1994 turnover, with up to a further 10 per cent reserved for employees.

BZW, the UK investment bank, recently valued the group, which last year made net profits of FFr9.2bn on sales of FFr147.8bn, at FFr147bn. It said the company scored well on "simple efficiency measures", such as lines per employee and labour efficiency.

It said the group had high penetration, with 56 lines per 100 population, and a fully digitalised network, future expenditure could be "geared towards expanding the range of services and increasing line usage".

The new regulatory framework requires the establishment of an independent regulatory authority, to be set up from January 1 1997. This body will supervise rules fixed by the government, which will retain the right to licence new operators from January 1 1998, when complete liberalisation takes effect. The reform makes France Télécom responsible in the first instance for a universal service, defined as providing an affordable national service with no price discrimination based on geography. Much of the detail remains to be worked out, however. The level of interconnection charges for new operators could be a bone of contention.

The government has spelt out five guiding principles behind its reforms:

- Guaranteeing a quality public service for everyone;
- Guaranteeing users simple access to more services;
- Creating an environment favourable to the development of competition;
- Developing France Télécom's competitiveness and;
- Ensuring fair competition through the creation of an effective regulator.

Ministers also hope that more jobs and cheaper calls will result from the advent of competition. Indeed France Télécom has already implemented two rounds of price cuts this year. François Fillon, telecommunications minister, recently suggested further reductions in tariffs would be made before 1998.

Competition has already started to creep into certain segments of the French market. In May, MFS Communications, a US-based telecoms company, announced the link-up of its first corporate client to a 20km optic fibre network in the Paris sewers.

Competition is also entrenched in the buoyant mobile market, where the two established operators – France Télécom and Générale des Eaux – were this year joined by Bouygues, better known for its construction activities and interest in the TF1 TV channel.

At just over 1.8m at the end of July, the number of mobile subscribers is still low in France compared with other western European markets, partly because phones tend to be viewed as business tools, with services priced and packaged accordingly.

Bouygues' arrival on May 30 with a network that operates at the 1,800MHz frequency range until recently reserved for the French defence ministry looks set to change all that. The company has described its market as "the general public", something that has been reflected in its early promotional campaign – expected to cost FFr65m between June and September and has featured the slogan "Using the telephone is becoming a sixth sense" – and in the price at which its service is being pitched. By end-July, the new network had clocked up more than 22,000 subscribers.

* * *

Japan: by Michiyo Nakamoto

Technologies lead the way

While the sector trails others overall, mobile telephony has leapt ahead

In the past few years, deregulation and new technologies have supported the emergence of telecoms as one of the fastest-growing sectors of the Japanese economy.

The country's telecoms industry still trails behind the electric machinery, vehicles and electric power industries in terms of overall sales by type one carriers – operators that own their own network infrastructure. Sales amounted to Y9,000bn in the year to March 1995, according to the Ministry of Posts and Telecommunications.

However, overall planned investment by type one carriers showed the strongest growth among all industries in the last fiscal year to March, 1996, climbing 27.8 per cent to Y3,460bn, the ministry points out.

In particular, the mobile communications market has seen rapid growth in subscribers since deregulation was introduced and helped to reduce prices significantly.

Japan's mobile communications market grew 71 per cent to Y2,400bn in the fiscal year to March 1996, according to the Ministry of Posts and Telecommunications. Japan is now the second largest mobile phone market after the US with 13m subscribers at the end of April this year – an increase of 81 per cent over a year ago.

Personal handy phones, which are a cheaper form of cellular phone, have also spread rapidly, with subscriptions reaching 2m in the first 10 months after services were started.

The use of mobile communications tools is so widespread that it has become a social issue in Japan where the use of phones in public places such as on trains, in hotel lobbies and restaurants, is frowned upon. What is more worrisome, the Japanese police found that up to three quarters of the accidents that were reported in June occurred while the driver was trying to make or receive a phone call.

Such concerns, however, are hardly expected to halt the growth of the mobile communications market. This fiscal year, the telecoms ministry expects the market to grow a further 48 per cent to Y3,500bn.

While the mobile market has shown spectacular growth, the fixed line market has been hampered by a lack of competition despite extensive deregulation measures introduced 10 years ago.

In particular, the lack of access rules in a market where the former national carrier, NTT, provides both local and long-distance services and dominates the local market, has prevented long-distance carriers from competing effectively.

NTT has been able to charge its long-distance competitors high rates for access to its local network, a factor which has led to the high cost of long-distance telephony and other services in Japan. As a result, the cost of telecommunications in Japan has been kept high, many services have been kept from growing and "the average spend per head in the US [telecoms market] is 50 per cent higher than in Japan," points out Barry Dargan, industry analyst at SBC Warburg.

Before the end of this fiscal year in March, however, the government is expected to take a number of measures which will go a long way towards resolving outstanding issues.

First, the government will draw up access rules based on the recommendation of an advisory panel which is due to be finalised next spring.

The difficulty NTT's competitors have had in competing successfully with the dominant carrier has stemmed to a large extent from a lack of fair access to NTT's local network.

Long-distance carriers have had to pay out close to half their revenues in access charges to NTT.

Tokyo Telecommunication Network, a regional phone company operating in the Tokyo area, has not been able to grow its business due to its lack of the final link into customers' homes, which is dominated by NTT.

Although TTNet has an extensive network linking long-distance and local switches, without the connection to homes, either the company or subscribers were obliged to pay the cost of laying that line, which is prohibitively expensive and wasteful. NTT, meanwhile, had shown little interest in providing TTNet with the required link.

Under the threat of divestment, NTT itself declared a policy of providing open access to its network, last autumn.

TTNet plans to take advantage of this new policy and, in early 1998, start to provide local and long-distance phone services at rates lower than those currently charged by other operators.

Long-distance and international call services will be offered by tying up with long-distance and international carriers. Kazuo Fujimori, president of TTNet was quoted last year as saying that with access to NTT's network, the company can aim to win 4m users, or 20 per cent of the Tokyo regional market in the next 10 years.

However, the telecoms ministry believes NTT's stated policy will need more than the company's own private initiative to be effective.

By drawing up access rules, "we are trying to create a framework for NTT to provide open access to its [local] network that would include an incentive for, or some form of pressure on the company, to do so at low rates", says Eiichi Tanaka, a senior adviser to the telecoms ministry.

Secondly, the government plans to deregulate the leased line market to allow each end of privately leased lines to be connected to the public network.

Deregulation of the domestic leased line market could take place as early as this autumn, making it possible for companies that do not have their own lines to provide telecoms services to a general public.

At the same time, the government is working towards bringing forward deregulation of the international leased line market, which is expected to have a tremendous impact on competition in that market.

By next spring, the telecoms ministry is also expected to remove barriers separating long-distance and international business, following removal of the boundary between local and long-distance markets.

The ministry plans to ask for a revision of the KDD law to allow the international carrier into the domestic market. Until now, Japan has been unique among industrialised countries in separating the international and domestic telecoms businesses.

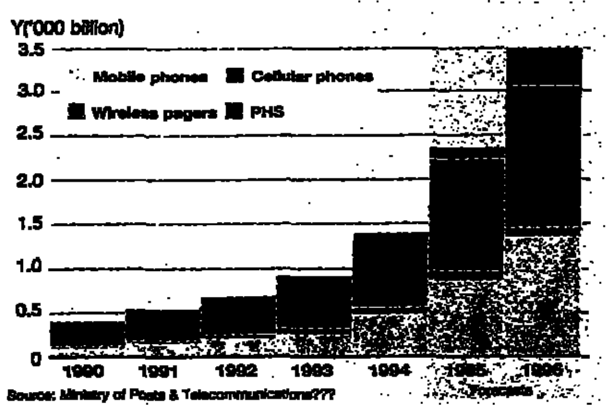
The removal of that distinction is likely to prompt alliances, if not outright mergers, between international carriers, such as KDD, and long-distance carriers, such as Japan Telecom, which in turn will help to realise lower rates, says Mr Dargan.

By the end of the year, a government decision is also expected on the status of NTT. This is a major issue that has been left undecided in spite of the recommendation by a government advisory panel that NTT should be broken up into a long-distance company and local carriers to stimulate competition.

As these decisions take shape, they are expected to usher in important changes to Japan's telecoms industry. A decision on NTT's status, for example, will give foreign carriers looking for a Japanese partner a more solid basis upon which to base their decisions. Japanese carriers that do not know what kind of carrier they will be competing with in a few years time will have a better idea of their competitive environment.

Japanese carriers will also have a clearer idea of their priorities concerning overseas markets and alliances at home. The next few months will be crucial in laying the foundations for an extensive restructuring of Japan's telecoms industry.

Growth in mobile communications in Japan



Source: Ministry of Posts & Telecommunications???

While the mobile market has shown spectacular growth, the fixed line sector has been hampered by a lack of competition

Glyn Genin

Taiwan: by Kris Szaniawski

Asian tiger sharpens its claws

Partly as a result of international pressure, the state is liberalising its telecoms industry

Having lagged behind its neighbours in recent years, Taiwan took a big step forward at the beginning of this year by legislating to open up its telecoms market. In a bid to extend its position as a regional business hub Taiwan is putting the finishing touches to a series of tenders which which will deregulate telecoms in this tiger economy.

The monopoly on switched voice traffic will probably remain in place until 1998 but the liberalisation of other fixed traffic markets, such as data, is expected by the middle of next year and all mobile services are in the process of being deregulated.

Foreign investors are lining up to bid for a total of eight new cellular licences, eight paging licences and up to 30 licences for other wireless services. In this feeding frenzy the cellular licences are attracting the greatest interest.

The tender details have yet to be finalised. In the latest development, the Taiwanese government bowed to lobbying from Washington by deciding to raise the threshold of foreign ownership in domestic telecoms ventures to 49 per cent rather than the 20 per cent that it had proposed in May. The Taiwanese are open to pressure as they are dependent on US backing in their bid to join the World Trade Organisation.

Powerful US companies which are among the foreign companies planning to bid for the lucrative digital cellular licences – such as AT&T, AirTouch, South Western Bell, Sprint and Nynex – are also lobbying their government to exert pressure on the Taiwanese authorities to drop the 11.5 per cent profits ceiling that it proposes to impose on all telecoms joint ventures.

The foreign ownership barrier may in any case prove not to be a limitation as the Taiwanese government has suggested that it will give it as favourable an interpretation as possible by extending the definition of what constitutes a local company.

Although Taiwanese investors will still dominate the various consortia bidding for cellular licences the new telecoms market will be far from the state-owned telecoms monopoly that existed until recently.

With cellular penetration currently standing at a mere 3.5 per cent by comparison with about 12 per cent in Hong Kong, the Taiwanese have a lot of catching up to do with equivalent economies. With a per capita gross domestic product of about $12,000, Taiwan has a cellular penetration lower than Malaysia's, which has a per capita GDP of only about $4,000.

The waiting list for the current GSM cellular service operated by the PTT may be as high as 400,000, illustrating the extent of pent-up demand and the opportunities awaiting new operators. Expansion has been held back by slow infrastructure roll-out and inadequate capacity.

As the national operator had attracted 170,000 customers by the beginning of this year to a GSM network that was only launched in early 1995, and is currently attracting as many as 40,000 net new GSM subscribers each month, this would suggest that customers are out there for the taking.

The total cellular market – including analogue subscribers – was about 770,000-strong at the beginning of the year and some analysts expect to grow to 4m by the end of the decade.

The government has chosen the GSM and DCS-1800 European-originated digital technologies for the eight cellular licences. Three regional GSM and three regional DCS-1800 licences will be awarded possibly before the end of the year, as well as one or two national DCS-1800 licences. It is not yet clear if one of the national DCS-1800 licences will go to the state-run national operator.

The state-run national operator, Directorate General of Telecommunications, is being restructured as the corporate Chung Hwa Telecommunications, probably as the first step towards selling bits off to outside investors.

Tomorrow he'll be using a mobile: demand is such that the authorities are considering shifting development from fixed-line networks towards cellular networks Sarah Murray

■ **China:** by Tony Walker

The bamboo superhighway

Beijing plans to spend much of its telecoms budget on laying fibre optic cable

Extraordinary growth in cellular mobile phone ownership in China is just one aspect of an explosion in the telecommunications sector which includes the spread of telephone services, availability of cable, plans for an information superhighway and increasing resort to use of satellite communications.

Under China's Ninth Five Year Plan (1996-2000) the country plans to spend Yn500bn ($61.7bn) on its telecoms by 2000, about two-thirds of which will go to building exchanges and laying 300,000km of fibre optic cable. The Chinese have set themselves the ambitious target of adding 64m new subscribers to the present 41m. Exchange capacity would double to 170m lines.

As part of the plan, telephone density rates will rise from 4.66 per 100 people at the end of 1995 to 10.5. In the cities, the figure will increase from the present 13 sets per 100 to between 30-40. That rate of increase for a country with a population of 1.2bn would involve adding the equivalent of half the number of UK lines each year to China's capacity.

Wu Jichuan, minister of posts and telecommunications, said recently that investment in China's telecoms would continue to grow at a rate of about 40 per cent annually to the year 2000 – an extraordinarily high growth rate by any standards.

Plans involve constructing eight horizontal and eight vertical trunk lines covering the whole country. Extension of telecommunications services to remote areas in China's hinterland has become a priority under the latest five year plan which aims to redress development imbalances between regions.

Funding for this ambitious programme will come equally from installation fees for the 15m new lines added annually, from high rates of depreciation on the MPT's assets which total about Yn260bn and from loans.

These include commercial banks loans, assistance from international lending institutions such as the World Bank and credit guarantee-type funding through institutions such as the Export Credits Guarantee Department, the UK credit agency, Coface of France and Hermes of Germany.

Mr Wu defended China's decision to exclude, for the time being, foreign companies from involvement in the actual operations of China's telecommunications system, saying conditions were not yet right. But he hoped that by 2020 the Asian Pacific Economic Co-operation (APEC) forum target of open telecommunications throughout the region could be met.

"In China we are trying our best to make conditions right so that foreigners can take part in operations of telecommunications. We'll do our best to make conditions right to comply with APEC," he said.

Mr Wu said one of the constraints on foreign participation was the fact that foreigners would only be interested in the eastern areas where demand was concentrated, and would have little interest in the sparsely-populated western regions.

But he added that foreigners were not prevented from being involved in the actual construction of networks "in ways acceptable to both sides". Foreign companies were not precluded from equity investment in such ventures with a "fixed rate of return".

One area which has been eyed covetously by international telecoms giants is the cellular phone sector. This is not surprising given the extremely rapid spread of mobile phones. The official China Daily reported recently that China Telecom, a subsidiary of the ministry of posts and telecommunications, was to poised to become the world's largest mobile phone operator within a year.

At the end of 1995 China Telecom had 3.6m customers. By June, that number had risen to 5.1m, and is expected to reach 7m by the end of the year. At that point, China Telecom will have passed AT&T which presently has most subscribers.

Indeed, such is demand for cellular phones that the authorities are considering shifting emphasis from developing urban fixed line telephone networks to expanding the mobile network instead.

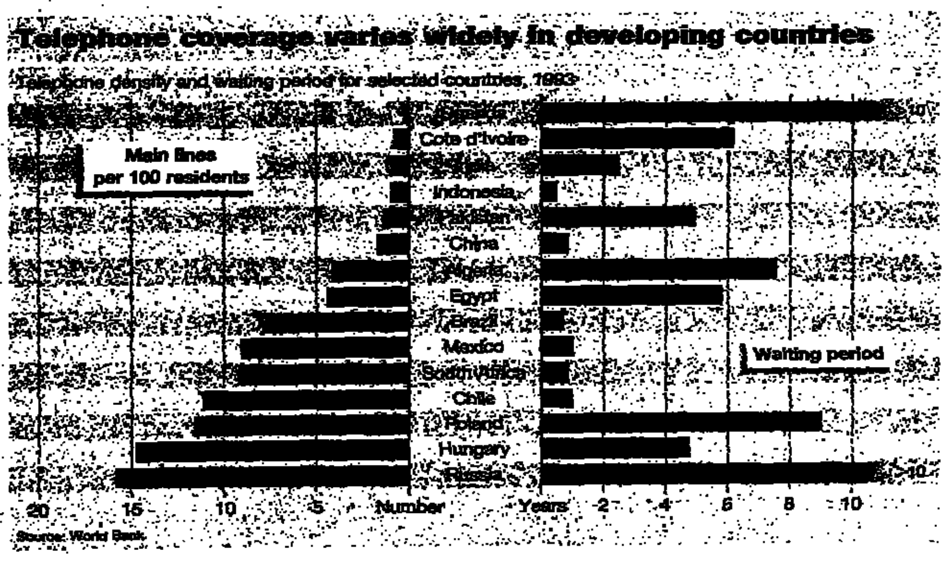
Foreign companies, including Motorola of the US, Nokia of Finland and Ericsson of Sweden are producing mobile phones in China. Motorola plans to invest $2bn by the year 2000, producing communications equipment, including cellular phones and pagers. The number of pagers in use in China reached some 20m at the end of last year, making China the world's largest pager market.

China is also looking well beyond 2000. The MPT is forecasting that by the year 2010, 420m lines would be available, more than double numbers at the end of the century. In addition, a "broadband integrated digital network" would be in place to provide interactive multimedia services in the cities and coastal regions – China's version of the superhighway.

China is now constructing what it describes as its "Three Goldens" projects, consisting of the Golden Bridge, Golden Customs and Golden Card. The Golden Bridge scheme will provide "superhighway" communications between ministries, state organisations and companies; the Golden Customs project will upgrade radically customs service communications to facilitate clearance of goods; and the Golden Card project is aimed at developing China's credit and debt card systems.

China is also plunging heavily into the development of its cable networks. In 1990, the country's subscribers to cable totalled 13m households. At the end of July this year numbers of subscribers had swelled to 45m out of a television-owning population of about 250m households.

By 2000 that figure is expected to reach 80m, making China easily the biggest cable television market in the world. In China's telecommunications sector the sky, it seems, is the limit.



■ **India:** by Eden Zoller

Rich returns for patient investors

Despite its potential, red tape and swings in policy deter many operators

For foreign investors, the Indian telecoms market is a tantalising one. Its potential is huge, with expectations that revenues generated will reach about Rs350bn ($10bn) by 2000. And with the country's penetration rates and service standards some of the lowest in the world, the government – determined to upgrade the sector but with a limited budget – is turning to overseas investment. But foreign operators finding the licensing procedure marred by red tape, political infighting and changes in policy, have become disillusioned and some – BT, for example – have pulled out of the race altogether.

With a population of almost 1bn, India has only 12.9m installed lines, the penetration rate for fixed services is an extremely low 1.3 lines per 100 people, and in spite of installing a record 1.7m lines last year the government cannot keep up with demand. The waiting list is between 2.5 and 3m.

The government aims to increase the penetration rate to six lines per 100 people and to provide at least one telephone in all of India's 600,000 villages.

Cellular services, introduced in India only in 1994, are limited to two GSM networks in each of the country's major cities: Delhi, Bombay, Madras and Calcutta. The GSM operators are all joint ventures between local groups and foreign investors, and unlike the market for fixed services, the cellular market is closed to the national operator.

The government moved to liberalise fixed services and further open up the cellular market last spring, when it carved the country into 21 regional licensing zones and issued tenders for two cellular licences in each zone and one licence for basic fixed-line services in each zone.

Concessions are classed according to the relative attractiveness of an area in terms of business potential. Five top ranked class A licences cover Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Karnataka. Class B licence areas are Haryana, Kerala, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh East, Uttar Pradesh West and West Bengal.

Class C licence areas are Assam, Bihar, Himachal Pradesh, the North East and Orissa. Bids have been placed in all areas except the Andaman and Nicobar Islands and the conflict-riddled state of Jammu and Kashmir.

Foreign companies have been allowed to enter the market via joint ventures in which they can hold up to 49 per cent. Tenders attracted US and European heavyweights including Stet of Italy, Swiss PTT Telecom, Bell Canada, Nynex, US West, Moscow Telecom and Bezeq of Israel.

However, the tender process was thrown into disarray last November when, after the first round of bidding was completed, the government abruptly announced that it would place a cap on the number of licences any one operator could hold.

A single operator can only hold three licences in the grade A and B circles, although there is no limit on the less attractive C circles.

On the cellular side, the US West-BPL and the Modicom alliance were forced to give up some of the licences for which they were originally in line.

The cap caused an outcry among bidders and provoked the opposition party to accuse the government of imposing the limit to prevent one of the bidders from making a mockery of its policy of using private investors to fuel the development of basic services.

The bidder in question was the alliance of local group Himachal Futuristic Communications Limited (HFCL) and Israeli national carrier Bezeq. The HFCL-Bezeq alliance bid much higher than any of its rivals and was in line to scoop up nine of the 21 licences for basic services. HFCL-Bezeq bid $26.58bn for the nine licences, and there was concern that the group would be unable to fund the development of services in all nine franchises. A failure of this sort would have been embarrassing for the government, robbing local people of the services they had been promised.

The cellular licences for the 18 zones where bids were placed was settled in January, but the award of the licences for fixed-line services was not resolved until the spring. The tender for basic services was not only hit by the imposition of a licence cap but also by the introduction of a reserve price after the second round of bidding.

Groups such as US West-BPL and AT&T Birla were so disenchanted that they simply dropped out altogether. The reserve prices were controversial, particularly as it was unclear exactly how they had been calculated. US West argued that reserve prices were too high, and could not be justified given the amount of investment needed and the likely returns.

In the event, the second round of bidding saw a marked decline in enthusiasm with only six bids placed and nine regions failing to attract a single offer. The lack of interest in the nine regions made a third round of bidding necessary and forced the government to reduce the reserve prices to attract interest.

Although the regional licences for basic services have all been awarded, the dust has not yet settled on what was a confused episode.

The operators are now trying to thrash out acceptable interconnection rates for access to the national network, a process proving so problematic that the operators have successfully lobbied for a six week extention to the original July 31 deadline for deciding the matter.

However, the signs are that once the parameters have been mapped out progress will be rapid. The cellular operators are moving quickly and most have already placed orders for network infrastructure.

Fixed-line operators could be as quick off the mark once interconnection rates have been established.

In addition, in spite of the hurdles, India's ambitious telecoms liberalisation policy has generated market reforms in a short space of time. For example, while the country's first cellular services were introduced in four cities in only 1994, by the end of last year together they had about 60,000 subscribers.

Merchant bank Salomon Brothers reckons that the new wave of entrants to the cellular market will swell the customer base to 3m by 2000, generating revenues of up to $3bn. For those prepared to face the hurdles, the overall picture is more positive still, with total telecoms revenues expected to climb from $2.7bn at the end of 1995 to $10bn by 2000.

Low penetration: with a population of almost 1bn, India has only 12.9m installed lines Tony Andrews

■ **Pakistan:** by Farhan Bokhari

Giving out mixed signals

The market's prospects have been dogged by delays in selling state-run PTCL

Two contrasting images define Pakistan's telecom sector. One is the vision of a huge market with opportunities for expansion. But this optimistic picture is set against growing concerns over the country's failed efforts to begin the privatisation of the Pakistan Telecommunications Corporation (PTCL), the monopoly telephone company, since the government first decided to privatise it more than four years ago.

The delay has been caused by a variety of reasons including security concerns, pricing of the company and political uncertainty which has dampened investor interest. Many potential investors, therefore, may have good reason to believe that Pakistan is in no rush to privatise the sector and open it up to foreign or domestic investment.

The initial two-year delay was caused by objections from the country's defence forces who argued that the takeover of the PTCL by a private management would harm security interests.

The government subsequently gave assurances that part of the money raised from the sale would be used to set up an alternative "secure" telephone network for the use of government and defence officials. However, despite such assurances, worries continued and were added to by concerns the sale of PTCL would not raise enough money.

More recently, worsening political and economic trends in Pakistan have added to anxieties among officials and businessmen, many of whom believe plans to privatise the PTCL may suffer further delay.

"You have growing anxieties over the political future of prime minister Benazir Bhutto's government and you have worries over the country's economic trends. The combination of these two may hurt the chances of PTCL's privation," says a senior western economist in Islamabad.

In recent weeks, however, many officials have drawn comfort from reports that a newly emerging Dutch-Indonesian-Pakistan consortium may enter the race and offer up to $2bn for 26 per cent of the company's shares. The government wants to sell the 26 per cent stock to an individual private investor or a consortium along with a transfer of the company's management.

The government's privatisation commission in Islamabad announced that Setiawan Djody, chairman of Stedco group of Indonesia, J.B. Volbeda, president of PTT Telecom Netherlands, and representatives of Shaheen foundation, a newly emerging Pakistani business group, verbally expressed interest in bidding for PTCL after discussions with government officials.

In a separate announcement, Shaheen foundation said, the consortium could offer up to $2bn to buy the 26 per cent shares. That announcement helped to remove some of the anxiety triggered by earlier reports that AT&T had decided not to put in an offer after reviewing PTCL's performance and growth prospects.

This July, PTCL announced that its annual revenues for the year to July 1995-June 1996 had exceeded a target of Rs35bn ($978m), but did not indicate by what margin.

The company has set itself an ambitious revenue target of Rs44bn for the current fiscal year ending in June next year. The company has so far not given a figure for its pre-tax profits for the last fiscal year though many analysts say that it would be 7 to 12 per cent higher than the previous year when pre-tax profits were Rs16.835bn.

Prospective investors have been promised measures which would ensure continued profits. The contract for the 26 per cent share privatisation would include clauses committing a seven-year monopoly on rights to provide basic telephone services in Pakistan as well as a 25-year renewable licence to provide a full range of telephone services.

The company also says that its prospects for growth remain attractive. PTCL has so far provided connections to 2.48m subscribers and still has capacity to serve another 670,000. Recent expansion in PTCL's capacity has raised the average availability of telephones to Pakistani subscribers to 1.76 phones per 100 people up from fewer than 1 per 100 in 1992.

The company has also recently taken steps to modernise its services, with moves such as the introduction of on-line Internet access for subscribers and a facility allowing companies to connect to national nine-digit universal access numbers, similar to the 800 service in North America.

Some analysts are positive on PTCL's growth prospects. Aaliya Dossa, analyst at Crosby securities' offices in Karachi says: "In such a large country where there is growing demand, you'll see the PTCL making more money in the future".

Nasir Bukhari, head of Karachi's Khadim Ali Shah Bukhari and company, a large brokerage firm says: "In spite of the uncertainty, PTCL's privatisation is bound to get going in the next few months." However, he adds, the pricing may remain an issue because prospective buyers are likely to make bids which are lower than those envisaged by the government. The government has so far not announced how much it wants for the 26 per cent share.

Many other analysts say conditions in Pakistan's leading stock market in Karachi may be crucial to the PTCL's future. Ten per cent of the PTCL's shares were placed on the markets in Pakistan and overseas, two years ago, when the government decided to sell part of the company's equity prior to a takeover by a private management.

The share prices have fallen by more than 40 per cent from their peak, largely due to political and economic uncertainty in Pakistan, which has pushed down the stock market's index.

Many analysts say that a dispute over the pricing may be triggered if prospective buyers use current share prices to assess the value of the stake while the government may expect to sell those shares at a higher price.

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telephone.

(ALSO transistor, laser, Telstar satellite, fibre-optic cable, cellular).
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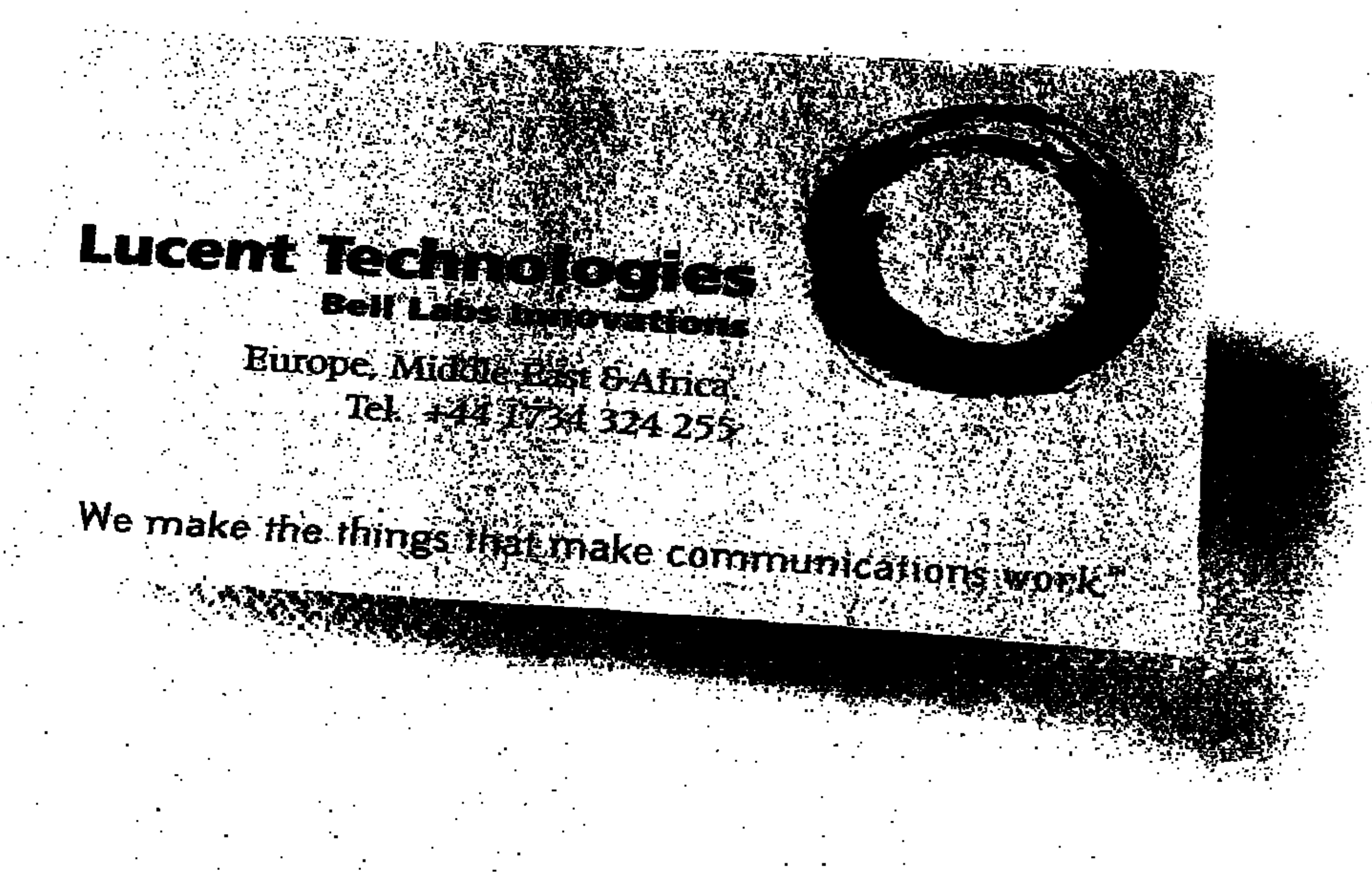


■ **The US:** by Richard Waters

Fortunes for the taking

Deregulation is likely to create huge openings for the telephone industry

Since the starting gun went off on August 8, there have been some clear pointers as to how the deregulation of the US's $100bn local telephone industry is likely to proceed. And, for those who are fleet of foot, the opportunities to make new fortunes in the telecommunications industry could be huge.

The opening of the country's local markets, which had been reserved to the regional bell operating companies (or Baby Bells) since the break-up of the old AT&T, was set in train by the passage of the Telecommunications Act in February.

It took the Federal Communications Commission's interconnection rules in August, however, to establish a procedure for achieving this – and, later, the entry of the Baby Bells into the long-distance market.

Already, it appears that the process will be more convoluted and take longer than was expected at the time the Act was passed. Competition will depend, at least in the short term, on local companies reselling calling capacity, or the use of individual pieces of their networks such as switches, to their new rivals.

That will lead to complex negotiations in the coming months – and the FCC's overarching, 668-page guidelines, which are intended to set a framework for the agreements.

The Federal agency's interpretation of its statutory responsibilities to bring about deregulation has won it little support, and many critics. According to Jennifer Taylor, head of US telecoms consulting at Price Waterhouse, the order betrays the agency's "instinct to regulate". Its detailed framework, aimed at deregulation, brings with it a whole new set of regulations, she added.

By the end of August, the order had drawn its first legal challenge. GTE, which alongside the Baby Bells operates local telephone networks, had filed a lawsuit seeking to block the regulations from going ahead. They would require it to sell the use of its network to competitors at below cost, GTE complained.

Not that the FCC's rules have made the long-distance carriers any happier. According to the agency's calculations, local companies will have to resell calling capacity at a discount of between 17-25 per cent – well below the sort of discounts some companies had been hoping to achieve.

Things are likely to become even more contentious in the months ahead. The FCC has yet to rule on the future for access charges – the fees that long-distance companies pay to local ones to have their calls completed. These fees amount to a $20bn-a-year subsidy to the local phone industry, and are likely to be fought over bitterly.

Not everyone is unhappy, however. Bernard Ebbers, chairman of WorldCom, the country's fourth biggest long-distance carrier, recently declared the FCC's August ruling to be "absolutely fabulous". His comments came as WorldCom announced an all-stock acquisition, worth $12bn, of MFS, which operates local networks in the US and abroad.

Another of the industry's leading managers was also prompted to action in the days following the FCC rulemaking. Alex Mandl, the heir apparent at AT&T, resigned to join a start-up company, Associated Communications. The company aims to compete in some of the Baby Bells' biggest markets by offering a wireless local communications service to businesses.

The actions of both Mr Ebbers and Mr Mandl point to a belief that, now that the local market is opening, companies that can move quickly stand to benefit the most.

Neither will have to await the outcome of interconnection agreements, access charge reform or other regulatory actions to launch their assault on local markets. Both have also targeted the high-margin business market in big cities.

WorldCom's purchase of MFS – which itself recently paid $2.5bn for UUNet, an Internet access company – also reflects a belief that those companies which own their own facilities will earn the fattest profit margins.

"By our calculation, you can't make a buck," by reselling local services at the discounts proposed by the FCC, said James Crowe. Also, he adds, companies which have to rent switches or network facilities from their competitors will make "an anaemic return at best".

For others, meanwhile, the months – and perhaps years – of gradual deregulation will require a careful balancing act. On the one hand, says Ms Taylor at Price Waterhouse, it will mean continuing to live in a regulated world – the paraphernalia of "costing rules, check lists, line-item regulations" put in place by the FCC.

On the other, it will mean acting aggressively to develop new products and attack new markets in those areas where regulation is lightest. That includes developing wireless and Internet access services.

The long-distance carrier MCI, for instance, agreed last month to buy calling capacity from the wireless communications operator NextWave over the next 10 years. NextWave is set to be one of the largest operators of PCS networks, a wireless technology which many expect to be cheaper and of higher quality than cellular, though PCS signals do not carry as far.

In some instances, says Whitey Bluestein, vice-president for wireless strategy and development at MCI, PCS could be used to provide a local service, rather than the traditional land-line, offering another way for the long-distance company to enter the local market.

MCI has itself been building local networks in some US cities under the MCImetro banner, providing it with direct access to some big customers. It also expects to become a reseller of the Baby Bells' calling time, and to rent pieces of their networks to construct its own local services.

All this points to a period of competition on a number of fronts, as the companies with an eye on the local telephone market seek for the best – and most profitable – way to reach the Baby Bells' customers.

It may arrive in fits and starts, but competition is undoubtedly coming.

The changing shape of US telecoms: market capitalisation of the biggest companies

Source: FT

Stealing the Baby Bells: rivals are keen to snap up local business

■ **Mexico:** by Daniel Dombey

Proceeding at a gentle pace

Caution is the key for a Mexican government keen to give Telmex breathing space

Change is rumbling through Mexico's telecommunications industry, with important sectors opening up to competition or being put up for sale. But although the scope of the transformation is wide, its pace is relatively slow. Initially, Teléfonos de México (Telmex), the country's former monopoly carrier, may be less affected by competition than first appearances might have suggested.

The company has long been one of the most impressive cash-generators in Mexico. After privatisation in 1991, Telmex reaped massive profits in spite of a poor public image, profits which contributed to $11bn of investment over five years.

Now things seem very different. The country's $3bn long-distance market, traditionally the main source of Telmex's profits, has been open to competition since August 11 this year. Both Telmex and two start-up rivals, Avantel and Alestra, have begun to promote themselves in massive advertising campaigns – although so far only a handful of consumers can choose between carriers for ordinary calls – and other, smaller rivals are waiting in the wings.

For their part, a clutch of smaller companies are likely to operate by leasing excess capacity from Telmex or another of the big players.

The pace of competition in local telephony is also slower than some might like – an area where Telmex has no legal monopoly, but where its low rates have, to date, deterred rivals from beginning operations.

The government is keen that local charges increase only slowly and has taken pains to ensure that other income – such as fees paid to Telmex for handling incoming international calls – compensates for a gentler rate of change to local tariffs.

However, local services may become more attractive with new, cheaper technology such as fixed wireless systems, which avoid the costly laying of telephone lines. The sale of a part of the radio-electric spectrum for local services is scheduled for later this year.

Just before taking office, Carlos Casasús, president of Mexico's Telecommunications Commission, said: "My impression is that the new technologies will allow very different economies for companies."

The commission is the government agency entrusted with the regulation of the sector. Mr Casasús added: "Fixed wireless services will not require much forward investment. So, by the middle or the end of 1997, local prices should be attractive to operators with new technologies."

A similar auction for a concession to operate Personal Communications Services (PCS) is also planned for this year, with more radio-electric spectrum sales scheduled for next year.

By providing a cheaper alternative to traditional mobile phones, the PCS sale may breathe life into Mexico's cellular market, which has been troubled by the weak state of the economy since the peso devaluation.

Up to now, the two companies in the sector, Telcel, a Telmex subsidiary, and Iusacell, have sought to win customers by offering cheap prepayment schemes, with Telcel snatching market share.

However, some analysts are sceptical about the capacity of fixed wireless or PCS to revitalise their respective markets.

"These technologies have not been tested on a mass scale and a number of hitches could occur," said Rizwan Ali, an analyst at Bear, Stearns in New York.

Indeed, the effect on Telmex of the future local and long-distance competition may be smaller than expected in the medium term.

"Telmex's international long-distance service will clearly have to reduce margins in the future," said Mr Casasús, adding that "the company's numbers will be helped by the tariff rebalancing programme and continue to be very attractive".

Telmex's profitability – and that of its rivals – will largely depend on whether moderate price reductions generate much traffic. Another crucial factor will be the Mexican economy as a whole, which shrank by more than 6 per cent in 1995, but may grow by up to 4 per cent this year.

In the longer term, the future of Mexico's telecoms companies, both old and new, will hang on the regulations introduced in the next couple of years. In a country where, for the first half of the decade, the long-distance market grew seven times faster than the economy as a whole, there is much still to play for.

But competition will not be fully fledged for some time to come. Mexico's cautious government has shaped a regulatory set-up in which competition is phased in and the various companies' margin of manoeuvre has been reduced.

Not until January 1 1997 will Telmex be obliged to connect its competitors to its own local exchanges – and hence to home phones. More time will elapse before ordinary users can sign on to one of the new carriers. Only in April, for example, will inhabitants of Mexico City be able to select a new telecoms company as their default carrier, and not until June will the process be complete.

Only months later will customers be able to choose a different carrier with every call. Officials believe that an emphasis on such "direct dialling" pushed rates down when Chile liberalised its own long-distance sector two years ago.

The government argues that a gradual pace of change will help Mexico avoid similar upsets, while keeping the sector open to qualified companies planning to invest in telecommunications. But the regulatory set-up will also delay the challenge to Telmex. Most start-up companies will wait until 1997 before offering services, although Avantel, a joint venture between MCI and Mexican bank Banamex, is already installing private lines to connect select corporate clients to its recently built 5,300km fibre-optic network.

Alestra, another significant participant, bringing together AT&T, GTE, Telefónica Internacional of Spain and Mexican conglomerates Grupo Alfa and Grupo Visa, is also building its own fibre-optic network, of which well over 1,000km has already been constructed. The group will market its services under AT&T's name.

Ricardo Peón, head of research at Deutsche Morgan Grenfell in Mexico City, said: "Competition is likely to be more orderly than in Chile, partly because you have two very serious and deep-pocketed participants among the competitors."

■ **Canada:** by Bernard Simon

Battle begins with a war of words

In the fight for market share, protagonists are wheeling and dealing to seek maximum advantage

Canada's phone companies and cable-television operators are warily circling and sizing up each other before they risk a full assault on the enemy stronghold.

This "phoney war" has been marked by a barrage of publicity from each side trumpeting its own innovative flair and painting a brilliant picture of its future success, while at the same time accusing the other side of holding an unfair advantage.

But the real battle has yet to commence. Frank Koelsch, vice-chairman of Gartner Group Canada, an information technology consultancy, notes that "the reality of implementation is that you have to choose technology, choose services and commit to spending large sums of money".

Few operators are yet ready to do that. The priorities up to now have been to get the best possible deal from regulators, mount limited trials of new technologies and sort out internal problems.

Typical of this preparatory phase was an announcement in mid-August by Telus, Alberta's privatised phone company, outlining plans to build a small fibre-optic network that will offer high-speed Internet access, video games and television to 3,400 homes in Edmonton and Calgary. The trials are due to start in the second half of 1997.

Bell Canada, the biggest phone company, has set up an Internet access provider known as Sympatico. Bell will offer the Sympatico service as part of tests in two Quebec and Ontario towns, starting this month, using Asymetric Digital Subscriber Line (ADSL) technology. ADSL can download data to a personal computer 100 times faster than a conventional 14,400 band modem without interfering with telephone calls.

Several cable companies have begun offering similar high-speed services on a trial basis. Rogers Cablesystems, the biggest cable operator, has signed up 600 customers since it started its Rogers WAVE service in Newmarket, north of Toronto, last November. It says the service, which is claimed to be cheaper and faster than anything the phone companies can offer, will be extended to other centres later this year.

Identifying winners and losers is difficult at this stage. Each side has strengths and weaknesses.

The cable-TV operators, which up to now have enjoyed a government-sanctioned monopoly in their allocated areas, have the advantage of extensive broadband coaxial and fibre-optic cable networks. About 80 per cent of Canadian homes have access to cable, one of the highest penetrations in the world.

The provincial phone companies, led by Bell (which operates in Ontario and Quebec), have greater financial muscle. They have also proved unexpectedly agile in fending off competition in the long-distance market since regulatory curbs were lifted in 1992.

The phone companies retain a stranglehold on local services, giving them access to comprehensive marketing data that potential rivals drool over. But their copper-cable networks generally require costly upgrading to cater for broadband multimedia services.

The federal cabinet opened the door to head-to-head competition in August. John Manley, industry minister, said: "The objective of the exercise is to provide choice, to produce technological innovation and to bring about lower prices for consumers."

However, a number of technical and commercial hurdles need to be crossed before consumers reap the full benefits.

The Canadian Radio-television and Telecommunications Commission (CRTC) recently began hearings to lay the ground rules for competition in local phone service.

At present, the market is a regulator's dream – a labyrinth of rules where long-distance calls subsidise local services, business users support residential services, and urban subscribers subsidise rural networks. Canadian households are still pampered by a low monthly charge and an unlimited number of free local calls.

Cable operators and new long-distance carriers have thus hesitated to move into the phone companies' strongholds. On the other hand, the phone companies want to prevent new entrants from "cherry-picking" the most lucrative parts of their business. The charges to be paid by newcomers for access to phone companies' local networks are among other contentious topics to be considered by the CRTC.

Some analysts predict high initial investment costs will inhibit each side from mounting a full-scale assault on the other for some time. "The real issue is who is in the better position to provide high-speed Internet services," says John Henderson, analyst at ScotiaMcLeod, a Toronto securities firm. In spite of their public bravado, most participants are proceeding cautiously.

"We'd like to bundle local service, long distance, interactive services, wireless plus an e-mail address for each of your kids, and sell the whole thing at a package price," John McLennan, Bell Canada's chief executive, said in a recent speech. But he added that Bell would stop short of plunging into the content business, relying instead on partnerships with providers. Such corporate deal-making, in the form of mergers, acquisitions, disposals and alliances, is likely to share the limelight with the battle over technology and regulation over the next few years.

Rogers, which just a few years ago harboured ambitions of being a diversified multimedia company, is in the process of selling its controlling stake in Toronto Sun Publishing, a newspaper chain. Similarly, Fundy Cable, based in New Brunswick, recently put its radio stations on the block so it could focus its resources on cable. Some pruning has also taken place among the horde of companies that rushed into the newly-deregulated, long-distance market four years ago.

More such wheeling and dealing is certain as each protagonist seeks maximum advantage for the battle ahead.

■ **Brazil:** by Jonathan Wheatley

Network in line for a shake-up

The government is embarking on an extensive privatisation programme

For the millions in Brazil who have been waiting years for a telephone line, Sérgio Motta, communications minister, has a message of hope.

In a series of high-profile statements, he has assured the country that its entire telephone system, including conventional, cellular and satellite services – with the possible exception of long-distance telephony – will be transferred to the private sector by the end of 1998. While many regard this as overly ambitious, Mr Motta has removed any doubt that the privatisation of Brazilian telecoms is irreversible.

There will be much to keep the system's new owners busy. Demand for services far exceeds supply. Telesp, the operating company in São Paulo state, recently offered 2.6m lines for sale to new and existing subscribers. It received requests for 5.25m; successful applicants chosen in a draw will pay $1,100 in advance and wait up to 30 months for installation. These are the first new lines Telesp has offered since July 1994. Telephone lines change hands on São Paulo's "parallel" market for up to $5,000.

Telesp is one of 26 local companies controlled by a holding company, Telebrás, together with the long-distance operator, Embratel. Once a model of state enterprise, the system has suffered from under investment for years. The ministry says $32bn must be spent by the end of 1998 to increase the number of lines per 100 inhabitants from 8.5 to 15. With the government struggling to keep public spending under control, much of this will have to come from the private sector.

The first private investments will come with the sale of concessions to operate "B band" cellular services, expected early next year. These will compete with "A band" services already offered by the state companies. The sale model is expected to be finalised by October, following public discussion of the ministry's proposals.

It is likely that the country will be divided into 10 "B band" concession areas: six in the prosperous south and east and four in the less developed centre, north and north-east. Under the ministry's plan, operators would be allowed a maximum of one concession in each of the two areas.

The existing "A band" services may be sold next year. Privatisation of conventional telephony will probably follow later, although the government may decide to sell the state companies and their cellular concessions at the same time. Before the local operators are sold, the ministry plans to rebundle them into four or five new companies covering the whole county.

> Brazilian tariffs are now closer to the regional averages

About two dozen consortia, mostly formed by international operators in alliances with local banks and entrepreneurs, are preparing to take part in the various stages of privatisation.

US operator AT&T has formed a joint venture with Globopar, the investment arm of Brazil's biggest media group, and the country's biggest private bank, Bradesco. GTE has signed a memorandum of understanding with Brazilian bank Itamaraty and Splice, a maker of telecommunications equipment; Bell South has a long-standing agreement with Brazilian bank Safra and media group OESP.

Other international operators and equipment makers have announced or are considering similar alliances; they include Nynex, Air Touch, Southwestern Bell, US West, Hughes and Motorola of the US, Stet of Italy, Telefonica of Spain, France Télécom, Alcatel and Globalstar of France, Swiss Telecom, Deutsche Telekom, and Cable & Wireless of the UK.

The sale of the "B band" concessions will offer them attractive potential earnings. Existing subscribers in São Paulo pay average monthly bills of about $100, compared with about $70 in the US. Brazil has less than 2m cellular telephones; the government hopes this will rise to 17m by 2003. Demand is strong: more than 1m would-be subscribers are on waiting lists and many companies have stopped taking new orders.

Many investors, though, are looking further ahead, to the "A band" concessions and sale of the operating companies themselves. In preparing these for sale, the ministry must strike a balance between providing the best and cheapest service to the consumer, which would imply selling the companies quickly and exposing them to the rigours of the market, and avoiding accusations of selling public property too cheaply.

The companies are likely to be given a good chance to prepare themselves; indeed, this is already happening. The presidencies of Telebrás and its subsidiaries used to be treated as instruments of political patronage. Recent appointments have almost all gone to career professionals.

The has already produced impressive earnings increases at Telebrás and at the operating companies. Telebrás' shares have been the darlings of Brazil's stock markets this year, as consolidated earnings rose to R$1.34bn ($1.33bn) in the first half, from R$308m in the first six months of 1995.

Although professional management has played a big part in this, much of the credit for the system's earnings must go to tariff increases introduced at the end of last year.

Traditionally, high international and long-distance charges subsidised local rates that were so cheap that it cost operating companies more than they collected to bill subscribers using only local services.

Brazilian tariffs are now closer to the regional averages, and another adjustment is likely before the end of this year. However, the government has not set a target for tariff levels, saying only that it aims to eliminate the "subsidy" of local calls. In the medium term, investors are likely to pay more attention to high-earning cellular services than to expanding the conventional network to the majority of the population that has no access to telephone services.

In the longer term, though, it is the vast conventional network that has the biggest potential for expansion and is of greatest interest to many international operators. Even if Mr Motta's target does prove overly optimistic, subscribers can be confident that competition will shake up the network to their advantage by the turn of the century.

In the meantime, they may migrate to cellular services. Even at an internationally expensive $350, the present cost of acquiring cellular lines in São Paulo makes them a cheaper option than conventional telephony.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday September 19 1996

IN BRIEF

PepsiCo moves to boost top team

PepsiCo, the US soft-drink and fast-food company that has been hit by a series of setbacks, surprised Wall Street by bringing in Mr Karl von der Heyden, a consumer industry heavyweight, to beef up its management team. The company said it had appointed Mr von der Heyden to the posts of vice-chairman and chief financial officer and had nominated him for election to the board. As chief financial officer, Mr von der Heyden replaces Mr Robert Dettmer, who is retiring at 65. Page 18

Bertelsmann moves away from pay-TV
Bertelsmann, the German media group, said it was scaling back its digital pay-TV activities in the wake of recent setbacks in the German market. These include the decision earlier this week by Deutsche Telekom to quit MMBG, the digital pay-TV venture in which Bertelsmann has a share, and the recent merger between Canal Plus, the French broadcasting company, and NetHold, a pan-European pay-TV group. Page 16

Ansett sale given qualified go-ahead
The Australian government has approved the A$475m ($375m) acquisition of a half-share in Ansett, the Australian airline, by Air New Zealand – but with conditions that will force a new shareholding structure. Page 17

Charges push Hunting into the red
Hunting, the UK defence, aviation and oil services group, announced its first losses for more than a decade after writing off £40.5m ($63.18m) on its aircraft interiors business. Page 19

Next shares slip despite rise in profits
Strong high street demand and the growing popularity of home shopping helped Next, the UK retail group, post a 12 per cent rise in pre-tax profits to £56m ($87.4m) in the six months to the end of July. However, disappointment among some analysts over the rise in like-for-like sales, concerns over consumer recovery, and profit-taking combined to knock shares down 25½p to 573½p. Page 20

UniChem puts £15m tag on Lloyds bid
UniChem, the wholesale and retail pharmaceuticals group, admitted its attempts to capture Lloyds Chemists had cost nearly £15m ($23.40m) so far. Most of the costs have come from underwriting fees. Lloyds was also the subject of a bid earlier this year from Gehe, the German pharmacy group. Page 20

Biotech group optimistic on pig clone
PPL Therapeutics, the Scottish biotechnology company that genetically engineers sheep to produce medicines in their milk, said it hoped to clone pigs to provide a means of transplanting pig hearts, kidneys and possibly lungs into humans without risk of rejection. Page 20

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			Imetal	765	+ 32
Rises			Pathé	1350	+ 35
Bolendorf	71.2	+ 2.5	SGS-Thomson	244.2	+ 10.8
Holzmann	348	+ 8	Falls		
Rosenthal	168.5	+ 3.5	BIC	717	− 20
Wella	920	+ 29	Danone	712	− 14
Falls			**TOKYO (Yen)**		
[illegible]	1250	− 19	Rises		
VEW	471	− 8	Akebono Brake	603	+ 21
NEW YORK ($)			Falls		
Rises			Amada Co	995	− 35
Amway Japan	22¾	+ 1⅛	Honshu Paper	670	− 26
Diamond Sham	30⅝	+ 2⅛	Kyudo Shinyo	474	− 25
Global Direct	41⅞	+ 2⅛	Mitsubishi Paper	394	− 26
Sunbeam	24⅝	+ 1⅝	Tosi	811	− 37
Falls			**HONG KONG (HK$)**		
Dillon Corp	23⅝	− 3⅛	Rises		
Rhodes	7⅝	− 3	Cosmos Hwa Dev	2.15	+ 0.17
LONDON (Pence)			Ngai Hing Hong	3.275	+ 0.2
Rises			S'pore HK Prop	1.72	+ 0.34
Air London	157½	+ 35	Star Ent	1.37	+ 0.21
On Demand	135½	+ 23	Falls		
Wessex Water	308½	+ 16	Amoy Props	9.1	− 0.3
Falls			Giordano Intl	8.8	− 0.95
Dogmatech	122½	− 14	**BANGKOK (Baht)**		
Next	573½	− 25½	Rises		
Treats	87½	− 13	Bangkok Union	28.25	+ 2.5
TORONTO (C$)			Eastern Wire	25.5	+ 2.25
Rises			Fancy Wood	19.5	+ 1.5
Alphanet Tel	19.70	+ 1.55	Minor Corp	22.5	+ 2.0
Global Strat	11.05	+ 1.05	Pocoatphant Fin	35	+ 3
Les Lab Acier	13.00	+ 1.00	Falls		
Falls			Alphatec Elec	282	− 26
Arbor Mem	25.00	− 1.50			
Bre-X Minerals	20.40	− 1.20			
Kingsway Fin	23.50	− 1.00			
PARIS (FFr)					
Rises					
AGF	142	+ 8			

New York and Toronto prices at 12:30.

Alcatel reveals plans for Thomson

Chairman confirms bid submitted for entire group

By David Owen in Paris

Mr Serge Tchuruk yesterday broke his silence over Alcatel Alsthom's bid for France's Thomson, saying he wanted to turn the state-controlled electronics giant into the world's second-largest defence company.

In an apparent attempt to halt the recent slide in the telecoms and engineering group's share price, the Alcatel chairman also promised that any deal would not be dilutive for Alcatel shareholders and would not worsen the company's debt/equity ratio.

"We will emerge with a debt/equity ratio of less than 30 per cent," Mr Tchuruk predicted. "In other words, Alcatel is a company with very little debt."

His comments had the desired positive effect on the share price, which rose FFr11, or 2.9 per cent, to FFr386.40, recouping most of this week's losses. But they prompted renewed speculation that the French state would need to recapitalise the heavily indebted Thomson as part of any deal.

Ms Angela Dean, an analyst with Morgan Stanley, the US brokers, said: "I continue to think there will be some debt write-off by the French government." She acknowledged that Mr Tchuruk's remarks on the bid had "given us some reassurance".

The Alcatel chairman confirmed that the group had submitted an offer for the whole of Thomson – the money-draining multimedia consumer electronics subsidiary as well as the essentially profitable Thomson-CSF defence electronics arm. He suggested he would be looking for partners for both parts of the Thomson business.

In defence, he would seek to form "a wide-ranging partnership" with another leading European industrial group. It is widely expected that this would be Britain's General Electric Company, Alcatel's partner in the 50/50 GEC Alsthom power engineering and transport equipment joint venture. Mr Tchuruk said yesterday it was "logical" but not inevitable that GEC would be this partner.

On the consumer side, the aim would will be to forge a partnership with "a major Asian electronics group". This would permit economies of scale while helping to compensate for Thomson's inadequate Asian market presence.

The battle for Thomson pitches Alcatel against Lagardère, the French missiles-to-magazines conglomerate. Both groups submitted their final bids on Monday. The French finance ministry has said it would need several weeks to pick the winner and Alcatel is widely thought to have a slight edge.

World Stocks, Page 36

TWA warns of profits downturn

By Richard Tomkins in New York

Trans World Airlines, the US airline that suffered the loss of one of its Boeing 747s in a mid-air explosion in July, yesterday warned that pre-tax profits would tumble in the quarter ending September.

It said the crash was only one reason for the downturn. Other factors included an over-ambitious expansion of domestic flights during the summer, pricing pressure caused by fare sales and higher fuel prices.

TWA's profits warning comes just a week after American Airlines said its costs had risen by 4 per cent in the third quarter, boosted by higher fuel prices and the cost of extra security measures.

American Airlines' announcement introduced a note of gloom to the US airline sector, which has recently seen strong profits growth amid rising passenger demand and higher fares.

TWA's share price was down only $¼ at $10⅜ in early trading yesterday. But the day before it had slumped $1⅝ to $10⅝ – a fall of 13 per cent – after Mr Glenn Engel, an analyst at Goldman Sachs, the Wall Street investment bank, published a gloomy report on the airline's outlook.

Mr Engel predicted that TWA would report earnings per share of just $1.20 in the quarter to September, down from $3.18 a year earlier when TWA made net profits of $76.8m before restructuring charges.

TWA's flight 800 from New York to Paris crashed on July 17, killing all 230 on board. The cause has not yet been established, but sabotage has emerged as the most likely explanation.

Yesterday, TWA said it had carried more passengers this summer than last, but the average fare paid had fallen, partly because of a loss of premium fare bookings on international flights after the crash.

Mr Jeffrey Erickson, chief executive, said: "Operationally and emotionally, this has been an extremely difficult summer for the people of TWA and, unfortunately, it now appears that we will see these difficulties reflected in third-quarter financial results."

UK-based telecoms group must 'sink roots deeper' in overseas markets

New C&W head puts emphasis on global reach

By Alan Cane in London

Mr Richard Brown, who has just completed his first quarter as chief executive of Cable and Wireless, the UK-based telecoms group, has emphasised his aim of capitalising on the fact that C&W has interests in some 50 countries.

In his first extensive press interview since joining in July, Mr Brown said: "Wherever we are in the world, if we decide to stay there, we must sink our roots deeper and go after the market with more than a single service."

"If we are in mobile, we should consider what it takes to be in wireline and what it takes to be in data or video. Margins are better if you sell multiple services into a single market."

Mr Brown also plans to seek greater synergies between Mercury Communications and Mercury One-2-One, the group's two UK-based subsidiaries.

He said fixed line operators had no future without wireless capabilities, confirming that he intends to promote closer links between Mercury Communications, the fixed line operator, and Mercury One-2-One, the mobile business.

He is also intent on raising Mercury's international profile. However, he aims to lift investment in Mercury without raising C&W's overall capital expenditure this year.

Mr Brown, 49 – the first American to head C&W – was formerly chief executive of H&R Block, the US tax preparation group better known as the parent of CompuServe, the online service provider. He was appointed to restore morale and direction to the company after the exit of its former chairman, Lord Young of Graffham, and chief executive Mr James Ross.

Mr Brown said his main priorities were revenue growth, improved efficiency and a revitalised corporate image. He aimed to concentrate on increasing the group's turnover without sacrificing profitability: "A healthy bottom line begins with the top line. The sustainable health of a business depends on recurring top-line growth."

Where a product or service worked in one place, he would seek to use it elsewhere.

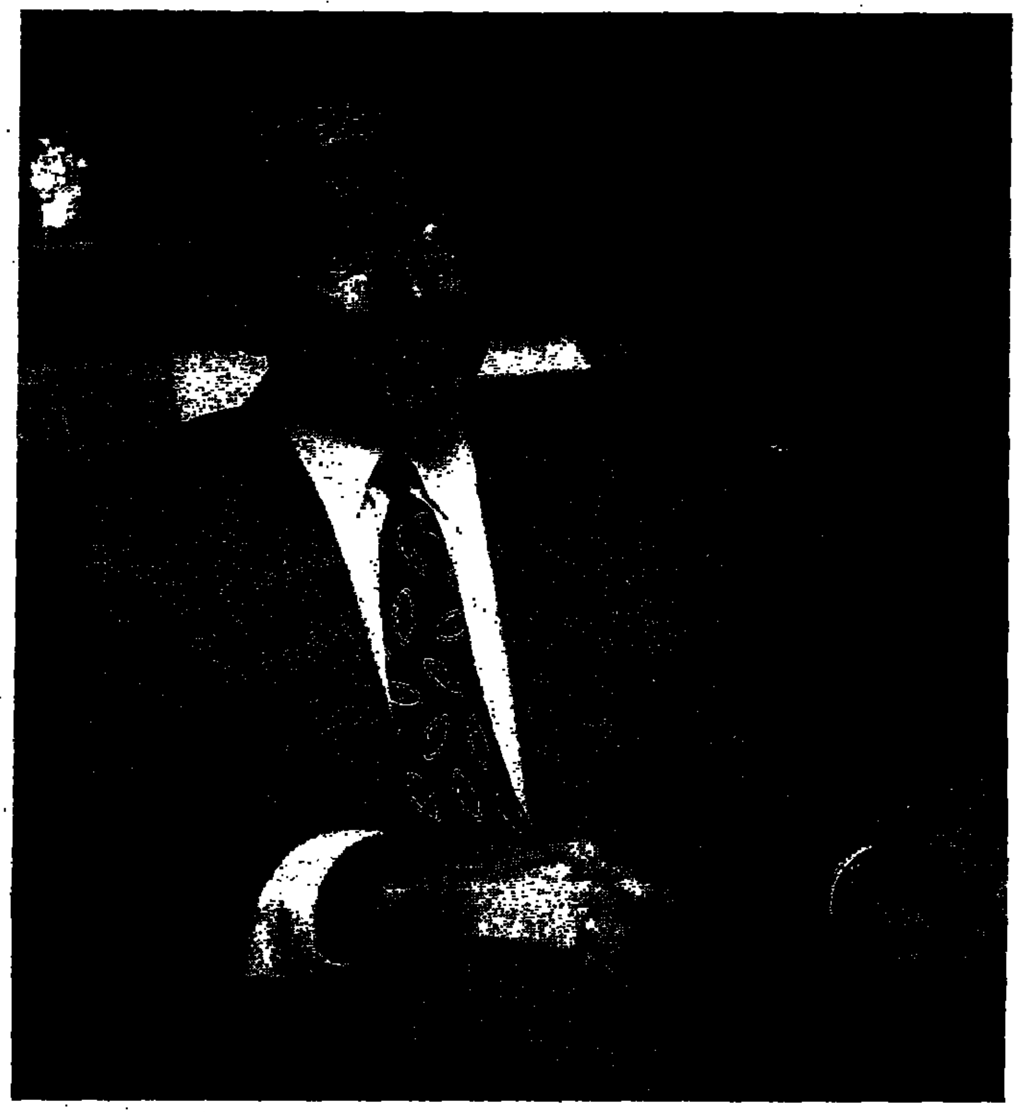
Analysts are divided, however, on how effectively Mr Brown can transform C&W.

Mr Andrew Harrington, senior analyst for Salomon Brothers in London, yesterday issued a "strong buy" note, arguing successful international operators will need strengths in each of the leading economies and that C&W's Asian interests – it holds almost 60 per cent of Hongkong Telecom – makes it attractive to other carriers.

Mr Harrington believed that Mr Brown would seek a strategic alliance or demerger.

Mr Laurence Heyworth, senior analyst at Robert Fleming, a seller of the stock, says the group faces severe political, regulatory and business risks. In particular, most of its profits come from Hongkong Telecom, which faces an uncertain future after the UK hands the colony over to China next year. Mr Brown said his immediate priority was to ensure that the interests of C&W shareholders were protected during the transfer of power.

Full interview in International Telecoms Survey, Separate section



Picture: Lydie van der Meer

Going for growth: Richard Brown, C&W chief executive

Olympic Airways rebounds

By Kerin Hope in Athens

Olympic Airways, the Greek state carrier which is undergoing an EU-backed restructuring, posted net profits of Dr9.2bn ($39m) in 1995, its best performance since it was sold to the state in 1974 by Aristotle Onassis, the Greek shipping tycoon.

Olympic reported a Dr30bn loss on operating revenues of Dr230bn the previous year, after writing off more than Dr20bn in debt under a state aid package approved by the European Commission.

Operating profits last year reached Dr13.4bn despite a decline in revenues to Dr223bn, the result of a poor tourist season which saw a 10 per cent decline in visitors to Greece.

However, the airline has been unable to secure the second Dr23bn tranche of a Dr54bn capital injection, which was due to be paid in January, because of a dispute with the European Commission over government interference in its management. The dispute blew up in March when Greece's transport minister, Mr Haris Kastanides, sacked Olympic's chairman and managing director, Mr Rigas Doganis, appointed to oversee the three-year restructuring.

The EC is expected to decide next month on the release of fresh capital. Analysts said the airline would have difficulty meeting this year's target of Dr17bn in net profits without the help of new funding, partly due to the poor tourist season.

The EC said that although Olympic was making a satisfactory recovery, the government was continuing to interfere in its management, appointing board members both for the airline and its subsidiaries, granting extra pension payments to staff who accept voluntary retirement and insisting that Olympic maintain unprofitable domestic routes to small islands.

The government has also failed to lift Olympic's monopoly of scheduled domestic flights and of flights between Greece and third countries, which were both due to end last year.

Under the restructuring plan, Olympic cut 1,500 out of 9,000 jobs, reducing staffing costs by more than 30 per cent last year, and also shut down several lossmaking international routes. However, plans for slimming down the management and ordering new aircraft were frozen after Mr Doganis was sacked.

Olympic's current management has postponed a decision on ordering new aircraft to replace its ageing fleet.

MG cuts ties with Young

By Nicholas Denton and Roger Taylor in London

Morgan Grenfell is expected next week to call in the Serious Fraud Office after concluding its interrogation of the star fund manager who brought embarrassment to one of the UK's leading investment management companies.

Mr Peter Young, the fund manager suspended earlier this month for "suspected irregularities", was accused of "gross misconduct" and dismissed on Tuesday night, said Morgan Grenfell, the Deutsche Bank subsidiary.

Morgan Grenfell had kept Mr Young on its payroll so that its in-house investigators and those hired from the accountants Ernst & Young could call on the fund manager to unravel the intricate scheme he had mounted to mislead his managers.

But the company has now cut all ties with its former employee because, it is understood, Mr Young had become less forthcoming in his answers and the investigators had obtained from him most of the information they needed.

Morgan Grenfell refused to say when its preliminary investigation would be completed but the timing of Mr Young's dismissal suggests the company could refer the case to the Serious Fraud Office as early as next week.

Mr Young was suspended after it was discovered he had set up a web of holding companies to disguise the scale of his investments in risky high-technology companies.

Mr Young's solicitors, Peters & Peters, have denied that he gained personally.

● The slide in British Biotech shares recently was due to the suspension of Morgan Grenfell Asset Management investment funds earlier this month, said Mr James Noble, the UK biotechnology group's finance director, writes Simon Kuper in London.

Other shareholders are thought to have sold on fears that MGAM would dispose of shares in order to fund redemptions in the suspended funds. Mr Peter Young had a stake of about 5 per cent in two holding companies he had created. The shares gained 2p to 203½p yesterday, down from 220p on September 4, the day details began emerging of Mr Young's holding.

Italian IT group tries to reassure investors and regulators

Olivetti promises finance details in early October

By Andrew Hill

Olivetti yesterday tried to reassure investors and Italian stock market regulators that its half-year accounts were in order, but refused to detail its plans for disposals or strategic alliances.

Before last night's board meeting, the group issued a five-page statement in response to 16 questions posed by Consob, the financial markets watchdog.

On September 3, Olivetti announced a pre-tax loss of L440.2bn ($288m) for the first six months of 1996. Mr Carlo De Benedetti resigned as chairman the same day.

The following day, Mr Renzo Francesconi resigned as director-general in charge of the holding company's finances, and claimed the real financial situation was much worse.

Olivetti denied this, but Consob has since been trying to force the group to clarify its financial and commercial position.

Olivetti said it would not be able to publish its net financial position at August 31, as requested by Consob, until the first week of October, because of the need to recover data from 200 operating subsidiaries.

It refused to reveal information about ongoing negotiations on alliances or disposals, because publication of such data "would be extremely damaging".

The group did, however, break down a L200bn provision in the half-year figures. Restructuring charges of L115bn included L44bn for the closure of overseas activities, and L63bn for the reduction of personnel and plant in the computer systems and services division. A further L85bn was set aside for possible capital losses on disposals and closures.

In answer to Consob's concerns about credit risks, the group said it did not believe it needed to make provisions against L134bn of credits outstanding to the former Soviet Union. The group said Mediocredito Centrale, the Italian bank, was acting for it and had indicated that the Russian authorities could repay by issuing government bonds in convertible currency. Provisions have already been made for L74bn of interest due.

It had no doubts that it would recover money owed by Italian state institutions, including the labour ministry and the post office. The group was owed L201bn at end-June, of which the post office paid L73bn during August.

Olivetti said it had included a L64bn capital gain from the sale earlier this year of 13.25m shares in Acorn, the London-based PC company, which Lehman Brothers of the US is now placing on the market. Olivetti said it had deposited L65bn with Lehman, which would gradually be repaid as the shares were placed.

It said it had no need to modify the criteria for valuation of stakes in subsidiaries because their book value was generally lower than market value.

On the question of stocks, Olivetti said its PC subsidiary had L198bn of stocks in its commercial warehouses at June 30, the Lexikon office equipment business had L267bn and the systems and services division L261bn, with turnover every six weeks at the PC unit and every three months at the other operations.

Industrial stocks stood at L105bn in the PC business and L123bn at Lexikon at the same date.

Institutions press for disposal strategy

By William Lewis in London and Andrew Hill in Milan

Members of a group of institutional shareholders who hold collectively about 25 per cent of Olivetti's equity said yesterday they were likely to call an extraordinary general meeting if the company failed to meet their concerns.

In particular, the shareholders do not want Mr Carlo De Benedetti reappointed as chairman of Olivetti and are pressing for the company to sell or close its personal computer subsidiary immediately.

Members of the group, which has met twice in London to discuss possible action, include Baring Asset Management and Morgan Stanley.

Nomura Capital Management, which initiated the first meeting of the shareholder group, recently sold its Olivetti shares.

***Speaking ahead of last night's board meeting,* the shareholders also said they believed the underlying value of the company's shares to be between L1,500 and L2,000, and want the company's management to implement a strategy based on disposals and demergers to achieve that value.**

Mr Talal Shakerchi, head of European equities at Old Mutual, which holds about 2 per cent of Olivetti and is a member of the shareholder group, said yesterday that "the value in the company needs to be realised".

For example, the company's 41 per cent stake in Omnitel Pronto Italia, the mobile phone company which is one of the group's most attractive assets, should be demerged to shareholders, he said.

"If we are disappointed then there is a very high likelihood" of an extraordinary meeting being called, Mr Shakerchi said.

Shareholders need 20 per cent of Olivetti's shares to call an extraordinary meeting. Assorisparmio, an Italian small investors' association, said yesterday it had already gathered the support of foreign institutions holding 10 per cent of Olivetti's shares, in the hope of requesting a special shareholder meeting.

In a statement issued before last night's board meeting, Assorisparmio said these foreign investors were interested "above all in renewing the board", in an attempt to improve the strategic management of the company in the interests of all shareholders.

Head of PC unit upbeat

By Paul Taylor

The obituaries for Olivetti's personal computer business – one of Europe's last remaining broad range computer manufacturers – have been written many times.

Olivetti is at best an also-ran in the commoditised global industry, its critics argue.

But Mr Bernhard Auer, chief executive of the PC unit and the man charged with turning the loss-making business around, insists that with or without its parent, Olivetti's PC operations can survive and maybe even prosper.

Mr Auer, a 55-year-old German industry veteran who has worked for Digital Equipment, International Business Machines and Compaq Computer, was brought in last year as sales and marketing chief of the PC division, and took over as chief executive in July.

Since then, he has continued the restructuring of the operations, which were transformed into a wholly-owned but stand-alone subsidiary at the start of the year.

After years of painful losses, the PC unit recorded an operating loss of just L10bn ($6.6m) in the first half of this year on sales of L15.8bn – a performance described by Olivetti as a great improvement on "the disaster of 1995".

Despite the distractions, Mr Auer believes Olivetti can survive in the turbulent PC market by focusing on higher-margin corporate sales of notebooks, desktops and servers – high-powered machines used to run corporate networks.

"The key values we have are a trusted brand name and market share," he says.

Although many industry pundits insist that size and global reach are what matters these days, Mr Auer believes that by focusing on solid logistics, manufacturing and marketing strategies, the business will not merely survive, but grow.

"The model for success is Olivetti's portable notebook computer products – the Echos line.

Sales of these stylish portable machines, which are made under contract in Taiwan, have more than doubled in the past year, helping Olivetti to become number five in the European market.

Now the PC subsidiary's management is betting that the same sales team can help lift sales of desktop PCs and servers. In terms of desktop PCs, Olivetti ranks eighth in Europe but has been growing at above-market rates recently, in spite of uncertainties about its future.

Overall, Olivetti sold nearly 1m PCs last year. It is particularly strong in Italy, where it has about a 17 per cent market share, and in the UK, France, Scandinavia and Germany.

About 30 per cent of sales are to private consumers, but the bulk is to the professional or corporate market – particularly in the financial and retail sectors, traditional Olivetti strongholds.

Olivetti's systems and services business is the unit's largest customer, but Mr Auer strongly denies suggestions that transfer prices have been anything other than at commercial rates.

As to the future, Mr Auer was careful yesterday to avoid speculation. "Fuelling the speculation would not be beneficial," he said.

Nevertheless, it is no secret that the PC management team has considered a buy-out or a partnership with another company, perhaps from east Asia. For the moment, however, Mr Auer will say only that nothing had been ruled out.

Bertelsmann cools on pay-TV

By Frederick Stüdemann in Berlin

Bertelsmann, the German media group, said yesterday it was scaling back its digital pay-TV activities in the wake of recent setbacks in the German market.

These include the decision earlier this week by Deutsche Telekom to quit MMBG, the digital pay-TV venture in which Bertelsmann has a share, and the recent merger between Canal Plus, the French broadcasting company, and NetHold, a pan-European pay-TV group.

Mr Thomas Middelhoff, Bertelsmann board member responsible for multimedia activities, said the company was "considering following Telekom's example".

The shareholders of MMBG, which also include Canal Plus, several of Germany's public sector broadcast networks, and Daimler-Benz InterServices (Debis), a unit of Daimler-Benz, are meeting in Bonn today, when Telekom will formally announce its withdrawal from the company.

Mr Klaus Mangold, chief executive of Debis, said his company, which held only a 5.5 per cent stake in MMBG, had already decided to withdraw from the venture.

Another TV company, Pro Sieben, which is partly-owned by Mr Kirch's son Thomas, also announced yesterday it had cancelled plans for a digital channel.

Bertelsmann has revised its assessment of the possibilities offered by digital pay-TV. Initially, the company thought the market could develop "quite quickly", but it now believes it will be hard to attract subscribers in Germany, which has a large free-TV sector.

By leaving MMBG, Bertelsmann would give up its involvement in the development of set-top decoders, which are needed to receive digital signals, and in the establishment of a proprietary broadcasting platform.

Instead, Mr Middelhoff said the company would concentrate on areas in which it has an established place in the market, such as online services.

In line with this strategy, Bertelsmann and Debis yesterday announced the creation of a joint venture to market Internet services.

Under the terms of the deal, Debis has acquired a 50 per cent stake in Mediaways, a Bertelsmann subsidiary which built and manages the connection network for the online services company AOL-Deutschland, in which Bertelsmann also holds a stake.

New entrants

	Sales DM bn	Ebitda DM bn	Ebitda margin %	Net profit DM m	Net margin %	ROCE %	ROE %
[illegible]	[illegible]	3.5	9.7	1439	2.7	8	12
[illegible]	[illegible]	4.3	10.3	955	2.3	10.9	18.5
Total	[illegible]	21.9	9.4	6234	2.7	7.7	15.3

Source: BZW

SBC tackles problems at home

By William Hall in Zurich

It used to be easy to pigeonhole the Big Three Swiss banks. Union Bank of Switzerland was the biggest, Credit Suisse the boldest and Swiss Bank Corporation was what the Germans would call a *Bummler*, or slowcoach.

However, yesterday's radical restructuring of SBC's domestic business, combined with its new provisioning policy, is a reminder that far from being the slowcoach of Swiss banking, SBC is now the trail-blazer. Mr Marcel Ospel, 46, who took over as chief executive in May, is intent on doubling return on equity and lifting net profits, which have hovered around the SFr1bn ($804m) mark for the last five years, to around SFr2.5bn by 1999.

Over the past couple of years, SBC has strengthened its international investment management business, with the $750m acquisition of *Gary Brinson's US money* management firm and the £860m ($1.34bn) purchase of S. G. Warburg, the UK merchant bank. It has also taken a 24.9 per cent stake in Perot Systems, the US computer services company, in a move to harness the best information technology to its core banking businesses.

But despite all these headline-catching moves, SBC has never properly addressed its weak spot – the domestic business. Like the rest of the Swiss banks, its earnings have been undermined by the loan losses in real estate which are now spreading into other markets. The domestic economy has been in recession for the best part of six years; unemployment and bankruptcies are rising; and the returns on domestic Swiss banking are minimal.

In SBC's case, the position is even worse. It is the smallest of the Big Three, yet has the biggest branch network. As long as the its unprofitable corporate business was lumped with its hugely profitable private banking business, the losses were hidden. However, this year SBC split off private banking as a separate unit, and yesterday's announcement is primarily concerned with addressing the problems of the core domestic business.

In May, SBC replaced Mr Roland Rasi, head of its domestic division, and promoted Mr Franz Menotti, 56, who had been responsible for retail banking. In the first half of 1996, SBC's domestic business earned SFr14m, compared with SFr481m in private banking; Mr Menotti's task is to raise the return on equity from zero to 10 per cent over the next three years.

SBC plans to cut its Swiss-based workforce by 1,700, or around 13 per cent, and close around 80 of its 325 branches. Cutting staff and branch numbers is easy; Mr Menotti's biggest challenge is to improve the profitability of the traditional corporate customer base without losing too many clients.

SBC: Before & after

	Net profit 1995 SFr m	1999/2000 Target (SFr bn)
Warburg	433	0.5-0.6
Domestic banking	14	0.4-0.5
Total net profit	[illegible]	2.4-2.6

Provisioning for loan losses reformed

By George Graham, Banking Correspondent

Swiss Bank Corp's new method of provisioning for loan losses is part of a radical transformation of banks' techniques for managing their risks.

Instead of making provisions only when borrowers actually default, SBC now argues that "loan losses are a predictable risk to which a certain probability can be assigned".

It plans, therefore, to make provisions for expected loan losses in advance, by calculating the likelihood of default on any category of loan.

For its total loan book, SBC calculates its expected annual loss at 0.5 per cent of average loan volume, in line with international credit standards. It will therefore set aside SFr600m ($482.4m) a year in a special actuarial credit risk accounting reserve.

SBC will also inject SFr2bn this year into the reserve to set up a cushion, because actual losses in any given year will vary from the expected trend.

"Seen from the present perspective, this sum should be sufficient to contain the unexpected loan loss costs in 39 years out of 40," SBC said.

Besides calculating the provisions it needs to make, SBC will be able to use the same data to price its loan more accurately, in the same way that insurance companies use actuarial calculations to assess premium rates.

A car insurer knows, for example, that a 17-year-old with a sports car is more likely to crash than a 40-year-old with a saloon, so charges the former driver a higher premium. Similarly, a bank knows that a new business is more likely to collapse than an established one, so will raise interest rates.

A number of North American banks, such as Bank of America and Bank of Montreal, adopt similar techniques for their loan books. Barclays in the UK and Westpac in Australia have also moved along this road.

But, although this kind of provisioning is welcomed by supervisors at some central banks, it runs into accounting and tax problems in many countries.

In the UK, for example, the accounting standards authorities will not allow this kind of setting aside as a specific provision. This means it can only be done under general provisions, which have to be made out of after-tax income. For this reason, Barclays uses its calculations in internal accounts, but not in audited accounts, though it reveals estimated risk tendency to investors.

Mercedes pins hope on Actros

Mercedes-Benz, the world's biggest truckmaker, hopes to turn a corner in its financial fortunes with the Actros heavy truck range, which will make its first public appearance at the Hanover truck show, opening to the press today.

Mr Jürgen Schrempp, chairman of Daimler-Benz, the parent company, said the new range would help lift Mercedes-Benz profits by at least DM500m ($331m). The company would save an additional "several hundred million D-Marks" by improving the flexibility and productivity of its German workers, while the Actros should also keep customers happier because of lower fuel and maintenance costs.

The Actros is Mercedes-Benz's first new heavy truck in almost two decades. The company says it will set new technological and engineering standards, with innovations such as disc brakes all-round and an electronically controlled braking system.

However, the vehicle's biggest contribution could be to Mercedes-Benz's bottom line. Although the company's commercial vehicle activities make money outside Europe, owing to successful subsidiaries such as Freightliner in the US and the Mercedes-Benz operation in Brazil, the European operations are believed to have been chronically loss-making.

Speaking in London last month, Mr Schrempp admitted: "With a few exceptions, we have never made a lot of money in the trucks business."

Information about the performance of the commercial vehicles operations has always been obscure, because the division's results are merged with those of Mercedes-Benz's highly-profitable car side. Promising greater transparency and less patience with loss-making businesses in future, Mr Schrempp said a first, visible change would come with the company's 1996 results, which would detail the commercial vehicles subsidiary's performance separately.

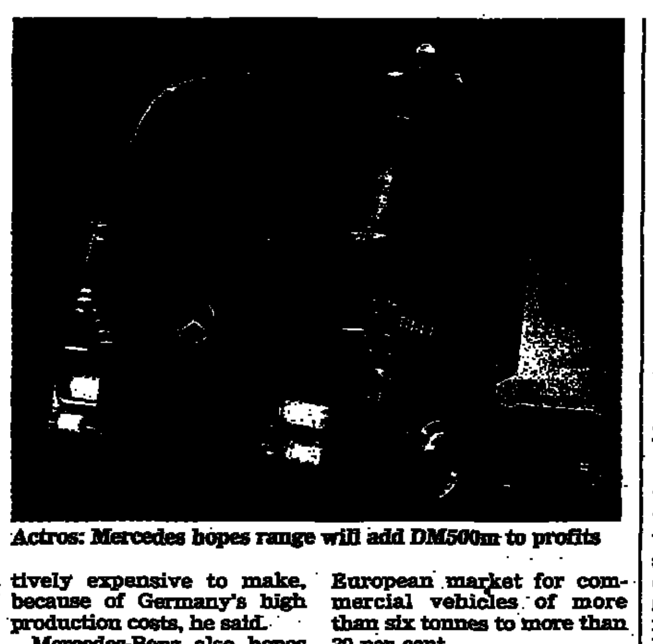
Mr Schrempp said previous managements had been "more patient" with the commercial vehicles side than the present top team. They had been willing to accept some cross-subsidisation between the cars and commercial vehicles businesses. Such practices were no longer acceptable, he implied.

Mercedes-Benz has already taken steps to turn round its high-cost European commercial vehicle manufacturing operations, which are concentrated in Germany. Its van-making activities have been boosted with a plant in Spain to build the new Vito light van range. Separately, margins on the German-built Sprinter are also believed to be appreciably better than on the previous model, because of extensive design changes.

But heavy trucks remain Mercedes-Benz's Achilles heel, hence the importance of the Actros. Mr Schrempp said the new vehicle would spearhead a rationalisation of the group's range of models. These were both relatively expensive to make, because of Germany's high production costs, he said.

Mercedes-Benz also hopes the Actros will help to rebuild its share of the west European market for commercial vehicles of more than six tonnes to more than 30 per cent.

Haig Simonian



Actros: Mercedes hopes range will add DM500m to profits

Smart car venture running on schedule

By Haig Simonian, Motor Industry Correspondent

Europe's riskiest new car project, the Smart venture between Mercedes-Benz and Switzerland's SMH watchmaker, is on track to build its first vehicles by autumn next year, in spite of doubts about its viability.

Micro Compact Car, the joint venture behind the Smart, said yesterday it had appointed 32 dealers to cover urban areas, corresponding to about 50 per cent of its target market. It said it had signed letters of intent with other dealers to reach its goal of a 100-outlet network for the Smart's launch in March 1998.

At the first press conference inside its factory in Hambach, north-eastern France, MCC said the 10 component suppliers largely responsible for building the car would start training employees next month.

The Hambach plant will be among the first of a new generation of car factories in which component suppliers are directly involved in final production. The 10 core suppliers will have separate factories next to the main plant, from where they will supply the production line.

MCC said the Smart project was budgeted to cost about FFr2.8bn ($544.2m). Mercedes-Benz, which owns 51 per cent of MCC, and SMH are putting up FFr1.5bn, with the rest coming from suppliers and the French government.

Société Générale ahead at midway

By David Owen in Paris

Société Générale, the French banking group, yesterday reported a more than 20 per cent advance in half-yearly net profits, spurred by a *solid performance from* all its main activities.

In figures that appeared to confirm an improving trend in the performance of large French banks, the group said net first-half profits rose from FFr2.42bn *to FFr2.96bn* ($576m).

Banking income for the period climbed 8.6 per cent to FFr21.2bn, while operating costs were ahead just over 7 per cent at *FFr15.06bn*.

The group said the higher costs were a consequence of its international expansion and increased remuneration as a result of the improved performance of trading operations. It said domestic operating costs rose only marginally.

Last month, the group unveiled a strategic expansion in the Asian region, taking a majority stake in Crosby Securities, the investment bank, to form a new Asian brokerage and corporate finance institution.

Mr Marc Viénot, chairman, yesterday described the group's performance as "encouraging". He said all three branches of activity had shown a progression in both activity and operating *profits*.

Overall operating profits rose 12.4 per cent, from FFr5.49bn to FFr6.17bn, with nearly half the figure coming from the *group's* domestic banking activities. These lifted their operating result more than 6 per cent to FFr3bn, in spite of what the group described as a "still difficult" competitive environment.

Market and international operations registered a 32 per cent improvement in operating profits to FFr2.1bn, while property and banking services climbed 5.2 *per cent*. The shares ended the day unchanged at FFr590.

● France Télécom, the state-owned telecoms group which is scheduled to be partially privatised next year, said *first-half* net profit rose 18.9 per cent to FFr6.3bn ($1.22bn). Operating profits were up from FFr14.8bn to *FFr15.2bn* on sales up 2 per cent to FFr75.1bn, *agencies report from Paris.*

The company said that due to an accounting change linked to privatisation, full-year 1996 earnings would not be determined on a comparable basis. As such, the company said it was too early to estimate 1996 earnings.

● Pinault-Printemps-Redoute, the French retailer, said first-half net profit rose 65.5 per cent from FFr452m to FFr748m ($145m). Sales were 1.5 per cent higher at FFr37.745bn, *reports AFX News from Paris.*

The company said that given the weight of the second half in the annual results, the growth of first-half group net results could not be extrapolated to the remainder of the year.

NZ airline given qualified go-ahead on Ansett

By Bruce Jacques in Sydney

The Australian government has approved the A$475m (US$375m) acquisition of a half-share in Ansett, the Australian airline, by Air New Zealand – but with conditions that will force a new shareholding structure on the companies.

The Australian treasurer (finance minister), Mr Peter Costello, said the purchase, from Australian transport group TNT, was subject to a number of conditions to ensure it complied with air traffic regulations.

He said if Ansett retained its status as a designated Australian international airline, its international operating arm, Ansett International (AIL), had to be substantially owned and controlled by Australians.

AIL would, therefore, be required to retain its head office and operational base in Australia, with at least two-thirds of its board, including the chairman, to be Australian citizens.

Also, 51 per cent of AIL's capital must be owned by an Australian holding company – which will be called Holdco – and owned 100 per cent by Australian citizens.

No further details of the proposed shareholding or board members of Holdco were released, but Mr Costello said approval for involvement in the company would be subject to regulatory processes. Ansett will control the remaining 49 per cent of AIL.

Mr Ken Cowley, the chairman and chief executive of Ansett Australia, yesterday welcomed the government's decision.

Mr Cowley, who is also Australian head of Ansett's other 50 per cent shareholder, News Corporation, said the government had faced a complex array of regulatory issues. He said he looked forward to early resolution of the Air New Zealand purchase.

The deal still has to be approved by a meeting of Air New Zealand shareholders, scheduled for September 27, which will also be asked to approve enabling funding arrangements.

Air New Zealand's chief executive, Mr Jim McCrea, said the conditions appeared acceptable and workable.

The Ansett-Air New Zealand deal was first broached two years ago when News Corp signalled its intention to sell its Ansett stake. Protracted negotiations ultimately foundered on price.

However, within weeks, Ansett's other 50 per cent shareholder, TNT, was in talks to sell its stake. The deal has been dogged by regulatory hurdles.

MasterCard takes the Chinese challenge

Credit card group sees the potential and the problems of this fast-growing market

Eugene Lockhart, president of MasterCard International, faces a question similar to the one confronting many chief executives dealing with China: what resources does one commit to a market which may be growing exponentially but is not yet providing returns that would justify a larger investment?

For many companies – including MasterCard – the Chinese market still requires a leap of faith. An uncertain regulatory environment, chaotic trading conditions and shifting consumer patterns make it difficult to plan and set targets.

But Mr Lockhart, a former chief executive of Midland Bank in the UK, believes it is in MasterCard's interest to make substantial additional commitments to China.

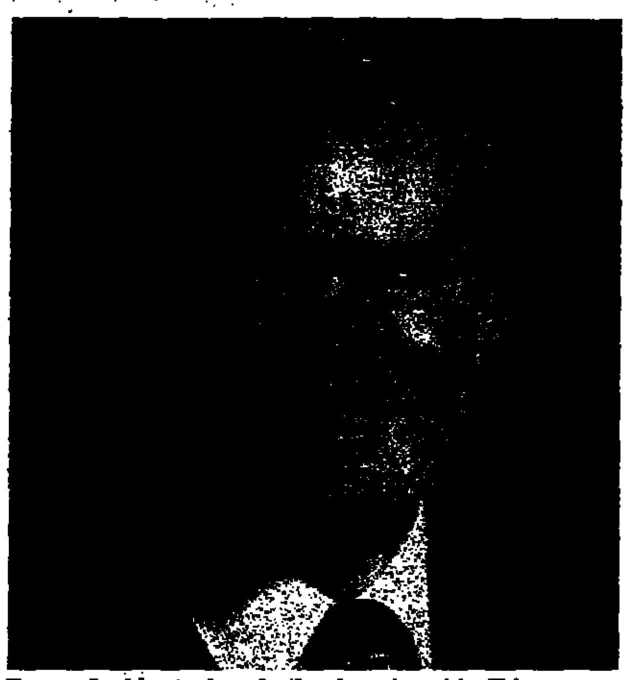
"We plan to make further considerable investment in China," he says, "both in terms of human resources and in money spent on publicity programmes and advertising."

However, he says there has to be a "critical moment" – the point when it is decided whether returns justify resources committed. "It is a challenge for every western company involved in China to balance market-building with achieving strict financial targets."

The explosion in the issuing of bank cards, the moves to transform China from a "cash-based" to a "cashless" society, the internationalisation of the economy, the huge potential growth in outward tourism as the Chinese become more affluent, and the changing attitudes to credit are all exciting developments for companies such as MasterCard, Visa and American Express.

In the 10 years since China's first yuan-denominated bank card was issued in June 1986, the number of cards in circulation has grown to 14.1m, and is expected to reach 200m by 2003. Transaction volume is also increasing dramatically, from just $2.5bn in 1991 to $115.8bn in 1995.

MasterCard has every reason to be satisfied with its penetration of the market. At the end of 1995, it accounted for 69 per cent of the market, or 9.8m cards. In terms of transaction volume, MasterCard represented 51 per cent, or $71.7bn. Its main competitor, Visa, holds about 20 per cent market share.



Eugene Lockhart: plans further investment in China

The potential of the Chinese market would seem difficult to ignore for a company like MasterCard. Transaction volume in China is already more than 10 per cent of its global figure of $500bn, of which the US accounts for $175bn. Numbers of MasterCard cards issued in China represent about 3 per cent of the company's 340m total worldwide.

But this is only the beginning, and China's moves towards currency convertibility will have considerable implications for companies like MasterCard. Initially, current account convertibility will be limited to foreign-invested enterprises, but gradually full convertibility will be introduced. The yuan will in time become an internationally tradeable currency, possibly by 2000.

In the meantime, foreign credit card companies will be hoping the authorities relax restrictions on Chinese citizens' access to credit cards that can be used internationally. As things stand, Chinese who travel frequently are obliged to service such cards from accounts outside China. MasterCard representatives have told the authorities that rules discouraging Chinese from holding offshore accounts denominated in foreign currencies to service credit cards are detrimental to China's interests. Mr Lockhart makes no secret of MasterCard's interest in seeing regulations relaxed. "For us this would represent a great first step towards seeing a rate of return."

The MasterCard chief sees the main growth area for MasterCard in the early stages in the debit/ATM (automatic teller machine) card market, because of the Chinese attachment to cash. Smart cards, or integrated circuit cards, also have considerable potential in a "cash-driven" society.

IC cards are being trialled in China's southern provinces, and are expected to spread rapidly throughout the country once given approval. The Chinese, worried about security, would be attracted to the IC card's safety features.

International credit card companies such as MasterCard and Visa are also keeping a close eye on China's much-vaunted Golden Bridge project, originally meant to provide a "super-highway" clearing system for both bank cards and non-bank cards by 2003.

But teething problems mean the project will probably take longer. In the meantime, the People's Bank of China's newly-established National Bank Card office has taken over responsibility for bank cards. Banks themselves are setting up their own bank card clearing systems, a vote of little confidence in the Golden Bridge project. The danger for China is that it will end up with a "dysfunctional" clearing system.

Mr Lockhart, on the other hand, is optimistic that order will be brought to potential chaos. "I've been impressed on a lot of different fronts by the aggressiveness of the Chinese to do the right thing and their concern about getting the right infrastructure in place."

Tony Walker

Sampoerna ahead but warns on margins

By Manuela Saragosa in Jakarta

Hanjaya Mandala Sampoerna, one of Indonesia's largest manufacturers of clove cigarettes, said net profit increased 15 per cent in the first six months of the year to Rp186.4bn ($80m) on net sales up 35 per cent from Rp727bn last time to Rp983bn.

Analysts attributed the increase in sales to a year-on-year 88 per cent rise in sales of Sampoerna's A-Mild brand of cigarettes. However, sales of Dji Sam Soe, the company's premium brand, grew only 9 per cent in the first half.

That sparked concern about a continued decline in gross margins, because the machine-rolled A-Mild cigarettes have lower margins than the hand-rolled Dji Sam Soe brand.

Also, it is expected that the government's new excise tax structure for all four of Indonesia's large cigarette manufacturers will continue to harm Sampoerna's gross margins.

The new taxes came into effect at the beginning of this year.

Concern about the company's gross margins initially caused its share price to fall 4 per cent to an intra-day low of Rp21,200 yesterday, but they closed Rp100 higher on the day at Rp22,200.

ASIA-PACIFIC NEWS DIGEST

Merck and Chugai form OTC venture

Merck, the US pharmaceutical company, will team up with Chugai Pharmaceutical of Japan in a joint venture to develop and market over-the-counter drugs in Japan. The move will give Merck access to Japan's rapidly growing OTC drug market, which is the focus of government moves to cut health care costs.

Merck already has a Japanese pharmaceutical subsidiary – Banyu Pharmaceuticals, which concentrates on prescription drugs – which will not be affected by the tie-up. For Chugai, the agreement offers ties with a leading global drug-maker at a time when the government's cut in official drug prices is eroding profitability and partners are being sought ahead of a possible consolidation within the industry. Some foreign companies have taken leading stakes in small Japanese drug manufacturers.

Chugai will provide 70 per cent of the Y2.5bn ($22.7m) capital of the new company, which will be based in Tokyo. The joint venture will start operations next spring.

Emiko Terazono, Tokyo

Pacific Andes launches IPO

Pacific Andes International Holdings, the Hong Kong listed company whose interests include frozen seafood and shipping services, yesterday launched the initial public offering of its newly spun-off arm, Pacific Andes Holdings. The company opted for a Singapore listing because of the city-state's position as an Asia-Pacific financial centre. Sixteen other Hong Kong companies have listings in Singapore, most notably the Jardine group of companies which delisted from Hong Kong in two stages, in December 1994 and February 1995.

Pacific Andes Holdings' activities are similar to those of its parent's. The listing is in two tranches, each of 30.625m shares at US$0.57 each. One tranche is being sold by the parent while the other is made up of new shares. A total of US$33m will be raised, although only half of this will accrue to the new company. Following the issue, the parent will hold 60 per cent of Pacific Andes Holdings.

Proceeds from the sale of new shares will be channelled into expanding processing capabilities, buying a plant in China, and developing own-label food products.

Louise Lucas, Hong Kong

Orogen Minerals float priced

The Papua New Guinea government will float part of Orogen Minerals, the holding vehicle for its interests in the country's main resource projects, at A$1.70 a share, raising A$260m (US$206m). Sir Julius Chan, prime minister, said the government would retain 51 per cent.

Orogen's interests include stakes in some of the world's largest gold projects, including 15 per cent of the Porgera mine, 20 per cent of Misima and 6.6 per cent of Lihir. Its assets, housed in the government-controlled Mineral Resources Development Company, also include 15.75 per cent of the Kutubu oil project and 20.5 per cent of the Gobe oil operation. A successful float would give Orogen a market capitalisation of A$600m. It will also have the right to take up interests in new resource projects in Papua New Guinea. However, it appears the vehicle does not include the government's interests in the Ok Tedi and Bougainville projects.

The float will offer 158m shares, with residents offered a discount for the first 2,000. A global institutional offering will also be made through depository receipts.

Bruce Jacques, Sydney

Tambrands to shut plants in shake-up

By Richard Tomkins in New York

Tambrands, the US maker of Tampax, the world's top-selling tampon, yesterday announced plans to close factories in Ireland and France but to expand its plant in England as part of a streamlining of its world-wide operations.

It said the move would bring a charge of $46m before tax, or $1 a share after tax, in the third quarter to September – more than enough to wipe out the net profits of $26.7m, or 73 cents, it made last time.

However, the company's share price jumped $2⅝ to $44⅞ in early trading after Tambrands said the restructuring would bring pre-tax savings of $20m a year from the beginning of 1998, so restoring growth to flagging profits.

Tambrands has been operating in an acutely competitive market characterised by heavy promotional activity that has eaten into earnings. Its main rivals are Playtex in the US and Procter & Gamble, Johnson & Johnson and Kimberly-Clark elsewhere.

Excluding unusual items, the company's net profits fell from $94m to $74.7m last year, and the slide continued into this year's first half. Underlying net profits were down from $44.5m to $36.6m in the six months to June.

Tambrands said yesterday it was combining its Americas and international divisions, which currently operate as independent organisations, into a single global organisation to increase efficiency, eliminate administrative duplication, improve decision-making and get new products to the market more quickly.

As part of the plan, the company said it was phasing out four of its nine world-wide manufacturing plants and concentrating production in the remaining five. Those closing are in Rutland, Vermont; Tours, France; Tipperary, Ireland; and St Petersburg, Russia.

Main beneficiaries of the closures will be plants in Auburn, Maine, which will gain about 150 jobs, and Havant, England, which will gain about 125 jobs.

Tambrands said the job losses would total 1,100, but these would be offset by the creation of 500 new jobs, resulting in a net reduction of about 17 per cent of the world-wide workforce.

The company also announced that Mr Edward Fogarty, chief executive, would take the additional post of chairman, succeeding Mr Howard Wentz, who is retiring at the age of 65.

Mr Thomas Mason, vice-president for international operations, will become chief operating officer, a new position.

The company had to be leaner, faster, and more efficient in building the Tampax brand if it was to go on beating much larger companies in its market, Mr Fogarty said.

PepsiCo in moves to strengthen management

By Richard Tomkins

PepsiCo, the US soft drink and fast food company that has been hit by a series of setbacks, yesterday surprised Wall Street by bringing in a consumer industry heavyweight to strengthen its management team.

The company said it had appointed Mr Karl von der Heyden, 60, to the posts of vice-chairman and chief financial officer, and had nominated him for election to the board. As chief financial officer, Mr von der Heyden replaces Mr Robert Dettmer, who is retiring at 65.

Mr von der Heyden has had an exceptional career at several consumer goods companies over the past 20 years – among them PepsiCo, where he served as an executive on the corporate side and in the US soft drink operation from 1974 to 1980.

After leaving PepsiCo, Mr Heyden joined H.J. Heinz, the US food company, where he became chief financial officer. In 1989 he joined RJR Nabisco, the US tobacco and food group, where he became co-chairman and chief executive.

In 1993 Mr von der Heyden became chief executive of Metallgesellschaft Corp, the US subsidiary of the German metals and trading group, and helped restructure the crisis-stricken company.

PepsiCo said yesterday that Mr von der Heyden had joined the company for about a year, during which he would help formulate long-term growth strategy and identify a successor. "He did not wish to return to corporate life on a more permanent basis," PepsiCo said.

PepsiCo has recently suffered a string of blows in its war with Coca-Cola for the global soft drink market.

Last month it lost one of its biggest overseas soft drink markets when its Venezuelan bottler defected to Coca-Cola, and the month before, the head of the group's international soft drinks business unexpectedly resigned.

Meanwhile, big operating losses at the group's main South American bottler, Buenos Aires Embotelladora, are expected to cost PepsiCo $60m in the third quarter, and the stock price has slid as analysts have downgraded their profit forecasts.

The group already has a respected chief executive in Mr Roger Enrico, who is credited with having built up Pepsi-Cola's share of the US market in the 1980s against tough competition from Coca-Cola.

Mr Enrico said Mr von der Heyden's experience leading a variety of large, successful companies would be a big asset. "And he knows PepsiCo well enough to make a big contribution in a short time," Mr Enrico said.

Claudia Schiffer helping Pepsi in the war with Coca-Cola PA

Ford arm to set up bank in Poland

By Kevin Done, East Europe Correspondent

Ford Credit Europe, the US carmaker's finance arm, is setting up a banking subsidiary in Poland and is seeking to expand its financing operations into Hungary and the Czech Republic, as part of the group's drive to increase vehicle sales in central Europe.

Ford was granted a bank licence by the National Bank of Poland yesterday. It is creating a subsidiary, Ford Bank Polska, which will enable it to start its own retail vehicle financing activities in the country.

As part of the price of entry to the Polish banking sector, Ford has agreed in a complicated deal to help bail out depositors at a failed Polish regional bank in Bydgoszcz, Bydgoski Bank Budownictwa.

Ford has placed several million US dollars on long-term deposit at Wielkopolski Bank Kredytowy, which is taking over the failed bank. Bydgoski Bank is to be liquidated this week.

Mr David Flanigan, Ford Credit Europe chairman, said the group had faced "a long process" to obtain permission to set up the bank.

Ford is planning to apply for a bank licence in Hungary shortly. In the Czech Republic, where the central bank has a moratorium on granting new bank licences, it is planning to establish a leasing and factoring subsidiary for financing vehicle sales and dealer stocks.

Operations in all three countries are expected to begin in the first half of 1997.

Ford Credit Europe is incorporated in the UK, and the Polish bank licence is the first to be granted to a UK bank regulated by the Bank of England.

Mr David Mercer, Ford Credit Europe business development manager, said that Ford expected Poland to become its sixth largest market in Europe by 2000 for both vehicle sales and financing. It opened a low volume assembly plant in late 1995.

East Europe is one of the world's fastest growing new vehicle markets. New car sales in Poland, the largest market in central Europe, increased by 33 per cent in the first seven months this year, to 230,766. Ford expects its sales to rise from 12,000 this year to 18,000 in 1997.

The development of car hire-purchase schemes in central Europe is still at an early stage, but Ford said that it expected its financing operations to grow "very rapidly".

INTERNATIONAL NEWS DIGEST

Aerospatiale back in profit early

Aerospatiale, the French state-owned aerospace group, yesterday provided a fillip for the French government by confirming it had returned to the black much earlier than originally expected.

However, the company said it expected the full-year contribution to operating profit from its Airbus activities to be "a little under" last year's level of FFr1.08bn. This was because of a reduction, in comparison with last year, in the number of long-range aircraft it expected to deliver. Overall, the group reported first-half net profits of FFr278m ($53.84m) against a loss of FFr105m in 1995. Turnover slipped to FFr23.11bn from FFr24.63bn.

Mr François Auque, finance director, said the results showed the first fruit of the sweeping restructuring the group has undergone in recent years. He trumpeted the FFr2.9bn reduction in the company's debt load, achieved in the last six months. This had resulted in the group's gearing – which stood at 83 per cent at the end of the first half – falling below 100 per cent for the first time in the 1990s. The group indicated that full-year net profits could be about double the first-half figure if the French franc/US dollar exchange rate is similar to the rate in the first six months. *David Owen, Paris*

Renault cost-cutting on target

Renault, the French carmaker, is "on target" to meet its goal of reducing its average production cost per car by FFr3,000 – or roughly 8 per cent – by the end of next year, Mr Louis Schweitzer, chairman, said yesterday in an interview in Chantilly, north of Paris, with FTTV.

The move – originally announced in March – is designed to slash costs by FFr4.5bn ($880m) a year. Less than a week after he confirmed the group expected to incur a full-year loss, Mr Schweitzer also hinted that Renault was considering further international expansion.

While it was important to "have a national car, a national identity", the company's presence in markets outside France was "not as strong as it could be", he said. The company "did not have a sufficient presence in Asia". Earlier this month, Renault formed a joint venture with three Malaysian companies and South Korea's Hyundai to manufacture vans and light trucks. *David Owen*

Weaker rand helps Sasol

Sasol, the South African synthetic fuels producer, showed the benefits of the weaker rand by announcing a robust increase in full-year profits. Operating profit from synthetic fuel operations was 23 per cent higher at R1.51bn ($336m), as domestic oil companies switched from crude-oil imports to Sasol fuels manufactured from coal.

Turnover rose 13.3 per cent to R13.5bn for the year ended June 30. Exports of fuels, fertiliser and petrochemicals boosted foreign sales by 78 per cent to R3.1bn from R1.7bn previously. Earnings per share rose 22 per cent to 393.1 cents. The final dividend was 20 per cent higher at 69.5 cents, bringing the total for the year to 122.5 cents. Analysts said the results were in line with expectations. *Mark Ashurst, Johannesburg*

Iscor hit by falling demand

Iscor, the South African steel producer, announced a drop in full-year profits and warned of a further decline pending a recovery in international steel prices. Net income before exceptional items fell 15 per cent to R620m ($138m), as local demand fell and fixed-price forward contracts offset potential gains from the weaker rand.

Mr Hans Smith, chairman, forecast that first-half performance would be "substantially down" this year, reflecting a further decline in domestic economic conditions." Results for the year to June 30 were bolstered by an exceptional R233m from an insurance payout, and adjustments to the industrial portfolio. Turnover was 4 per cent higher at R11.6bm (R11.1bn). *Mark Ashurst*

Tabacalera agrees Koipe deal

Tabacalera, the state-controlled Spanish tobacco company, said it had agreed to sell its stake of almost 10 per cent in Koipe, the country's leading edible oil concern, to Eridania Béghin-Say, part of the Ferruzzi group, for Pta6.2bn ($48.6m).

The deal, which increases the Italian group's holding in Koipe to about 76 per cent, virtually completes Tabacalera's withdrawal from the food sector in order to concentrate on its core tobacco business. It said it was also in advanced negotiations to sell its 4.6 per cent stake in the Spanish sugar refiner Ebro Agricolas. Ebro sold its own 4.8 per cent stake in Koipe to the Ferruzzi group earlier this year. Tabacalera obtained its minority holding in Koipe as a result of a merger two years ago between Koipe and rival edible oil company Elosúa. *David White, Madrid*

Wide interest in OTE venture

OTE, Greece's state telecoms company, said yesterday that 15 North American, Asian and European operators were interested in a joint venture to set up the country's third mobile telephony service.

OTE is offering a 25 per cent equity stake and management rights for a new DC1800 cellular system, to be launched early next year. It said a shortlist of half a dozen operators would be selected next month. CS First Boston and Alpha Finance, the Greek investment bank, are advising on the Dr120bn ($498m) project. *Kerin Hope, Athens*

Zurich Insurance ahead 32%

Zurich Insurance, the Swiss insurance group, said its first-half net profit rose 32.7 per cent to SFr576.4m ($480.30m). It did not give a comparative figure, as this was the first time it issued a first-half net profit figure. The company said it expected full-year net profit to be much better than its 1995 net profit of SFr874.1m. *AFX News, Zurich*

Banco di Napoli cuts loss

Banco di Napoli, the Italian bank, posted a pre-tax first-half loss of L674bn ($441.7m), against a deficit of L1,560bn last year. The bank said deposits were down 25.4 per cent year-on-year to L58,669bn, and credits fell 25.7 per cent to 49,029bn. *AFX News, Naples*

IRI warns of deficit

IRI, the Italian state holding company, said it was forecasting a 1996 parent net loss of L2,900bn ($1.9bn) compared with a year-earlier loss of L345bn. *AFX News, Rome*

■ CORRECTIONS

Pathé

Net income for the first six months of this year at Pathé, the French media group, was FFr132m ($26.03m) compared with FFr40m for the first half last year, not as reported in yesterday's FT. Libération, the French newspaper now controlled by Pathe, has a valuation in Pathé's accounts of FFr61m.

BP

The country of BP in yesterday's survey of Europe's most respected companies should have been stated as UK.

ROC improves terms of offer for Chateau

By John Authers in New York

ROC Communities, the Colorado-based real estate investment trust (reit), yesterday announced that it had improved its offer to merge with Chateau Properties of Michigan.

The announcement in July of a friendly merger by the companies led to a tangled bidding situation. Two other reits have made bids for Chateau.

Market attention has been drawn to the sector, which has not seen a hostile bid for many years, mainly because bidders are deterred by the complex tax and legal problems which are involved.

Chateau's board said it approved the amended agreement with ROC, which involves several technical and legal changes. The merger now only needs the approval of a majority of the Chateau common shareholders who vote, rather than two-thirds of all the company's outstanding shares. It also allows holders of Chateau's partnership interests to convert their units into Chateau common stock on a tax-free basis.

The companies said they hoped to complete the merger "as soon as possible", subject to approval by shareholders of both companies.

Manufactured Home Communities, of Chicago, had made a tender offer valuing Chateau at $26 a share. The company said yesterday that it remained in the bidding.

Michigan-based Sun Communities has also made an offer for ROC.

Laidlaw to receive $1.7bn from sale of solid waste unit

By Bernard Simon in Toronto

Laidlaw, the Ontario-based waste and transport services group, will receive almost US$1.7bn in cash and securities for its solid waste business from Allied Waste Industries of Arizona.

The sale, which involves more than a quarter of Laidlaw's annual revenues, will tilt the company more heavily towards school-bus and ambulance services, where the bulk of its expansion has taken place in recent years.

However, Mr Jim Bullock, chief executive, said yesterday that Laidlaw remained committed to its hazardous waste business, the biggest in North America. "We think we have a very attractive position in that market," he said.

The deal will leave Laidlaw as the largest single shareholder in Allied, with a 20 per cent stake. The acquisition enables Allied to expand its solid waste business beyond its present base in the mid-western and southern US.

The purchase price includes $1.2bn in cash, 14.6m Allied shares and $310m in other securities partially convertible into, or payable in, Allied shares.

Mr Bullock described the deal as partly opportunistic and partly strategic. The purchase price is equal to about eight times cash flow, which is considerably more than Laidlaw has paid for solid-waste acquisitions.

But Laidlaw also chose to sell rather than commit itself to the substantial investments needed to compete with WMX and Browning-Ferris Industries, which dominate the North American industry.

Laidlaw, which is controlled by Canadian Pacific, the Montreal-based conglomerate, will post an after-tax gain of about $600m from the sale. Cash proceeds will be used to reduce debt from $1.8bn to about $500m.

Mr Bullock said that Laidlaw, which has equity capital of $2.9bn, wanted to expand all three of its remaining businesses, namely, hazardous waste, ambulance services and school bus transport.

Laidlaw shares climbed 95 cents to C$15.25 in early Toronto trading yesterday.

Royale Belge up 13.7% midway

By Neil Buckley

Royale Belge, Belgium's second-largest insurance and banking group, said yesterday it would use BFr4bn ($128m) net proceeds from the sale of its stake in Tractebel, the energy group, partly to fund expansion plans – possibly outside its traditional market of the Benelux countries.

The group, which offers a range of financial services in the Benelux region, announced yesterday a 13.7 per cent increase in first-half net profits, from BFr4.45bn to BFr5.07bn.

The results announcement was postponed by a day when it was confirmed on Tuesday that Royale Belge's 4.29 per cent stake in Tractebel was to be sold, along with the 20 per cent held by Groupe Bruxelles Lambert, Belgium's second-largest holding company, to GBL's bigger rival, Société Générale de Belgique.

La Générale, of which France's Compagnie de Suez owns nearly 63 per cent, is paying BFr14,500 a share, or BFr49bn, for the combined 25 per cent stake.

Mr Jean-Pierre Gérard, Royale Belge managing director, said the insurance group would use the proceeds of the sale partly to cover the forecast BFr800m costs of transition to a single European currency and of preparing information systems for the switch to the year 2000.

But other possibilities included increasing its 51 per cent stake in the Netherlands-based subsidiary UAP Nieuw Rotterdam, formed from two groups of which Royale Belge took control of last year. The Dutch operations – now the eighth-largest insurer in the Netherlands – reported a jump in net profits from Fl 8.6m to Fl 28.4m ($16.73m).

Mr Gérard added that Royale Belge was constantly looking at opportunities outside Benelux, particularly in Scandinavia.

The group said strong performances in both the Belgian banking and insurance sectors had led to the first-half improvement.

Gross premium income increased 2.4 per cent to BFr59.3bn. Life premiums increased from BFr22.18bn to BFr22.69bn, while non-life premiums increased from BFr35.76bn to BFr36.6bn.

Classical life premiums were stable, although short- and medium-term savings plans had suffered from low interest rates. Motor insurance premiums were down 4 per cent as a result of the decision to favour good motor risks through adjusting tariffs. Corporate non-life insurance was making "satisfying" progress.

The Belgian banking subsidiary, Ippa, benefited from improved interest rate margins and efforts to cut costs. Overall group costs had also been reduced.

Royale Belge is controlled by French insurance group UAP and Belgium's Groupe Bruxelles Lambert, with 30 per cent of shares traded publicly.

COMPANIES AND FINANCE: UK

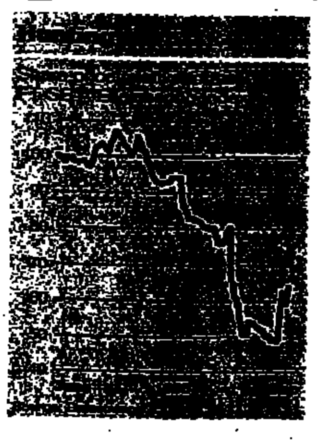
Exceptional charges put Hunting £14m in the red

By Tim Burt

Hunting, the defence, aviation and oil services group, yesterday announced its first losses for more than a decade after writing off £40.5m ($63m) on its aircraft interiors business.

The group blamed inadequate cost controls and volatile demand at the civil aircraft subsidiary for pre-tax losses of £14.2m in the six months to the end of June. It made profits of £15m last time.

Although sales rose from £565.8m to £627.9m, Hunting said the unprecedented losses had persuaded the board to withhold the interim dividend.



Losses per share were 32.1p, against earnings of 5.7p.

The figures would have been worse had it not been for a £7m exceptional profit on the disposal of its oil-industry construction business.

That offset operating losses of £25.7m in the aviation division, where Hunting set aside £30m to cover cost overruns on a contract for de Havilland and a £10.5m write-down on its investment in British Aerospace's Jetstream-41 aircraft.

Mr Ken Miller, chief executive, said four executives had left since the problems were discovered.

"Our internal controls were not implemented and we faced a massive logistical headache," he said.

While admitting the first half had been very difficult, Mr Miller predicted it was a one-off decline and the group would return to "normal trading" in the second half. He pointed out that before provisions and exceptional items, underlying profits rose from £15m to £19.3m.

The improvement was fuelled by increased profits of £11.6m (£8.5m) in the oil division, mainly due to strong performances by its marketing and truck transportation operations.

Profits rose modestly from £7.2m to £7.4m in the defence division.

Excluding the £40.5m provisions, the aviation division would have shown underlying profits of £4.8m (£3.3m).

UniChem spent £15m bidding for Lloyds

By Christopher Price

UniChem, the wholesale and retail pharmaceuticals group, admitted yesterday that its attempts to capture Lloyds Chemists had cost nearly £15m ($23m) so far.

Most of the costs have come from underwriting fees for the £630m cash-and-paper bid which, together with a rival offer from Gehe, the German pharmaceuticals group, was referred to the competition authorities.

Mr Jeff Harris, UniChem chief executive, said the group expected to hear from the Department of Trade and Industry by the end of the month. Both bidders have submitted plans to dispose of Lloyds' wholesale business, as recommended by the Monopolies and Mergers Commission.

Although he refused to say whether UniChem would re-bid, Mr Harris said the logic behind the takeover strategy was unchanged. "The acquisition of Lloyds would accelerate our growth strategy."

His remarks came as UniChem reported a 12 per cent rise in half-year pre-tax profits to £24.2m, which included the £900,000 cost of holding a 10 per cent stake in Lloyds. Operating profits rose 18 per cent to £27.4m.

The increases came on sales growth of only 3.4 per cent to £718.6m. While the comparisons were against a weak first half last year, Mr Harris said the company had resisted the trend towards discounting, particularly in the wholesale business. As a result, operating margins had improved in the division from 2.7 per cent to more than 3 per cent.

Retail margins also improved and operating profits rose by 33 per cent to £6.9m, despite variable trading conditions.

Gearing, which would have stood at 4 per cent, jumped to 52 per cent as a result of the £87.7m cost of buying the Lloyds stake.

Underlying earnings per share rose 14 per cent to 9.5p.

LEX COMMENT

Next

Next's shares fell by over 4 per cent yesterday, but its status as darling of the retail sector remains untarnished. Investors were disappointed that the trading statement pointed to a lower than expected rise in August's like-for-like sales. But only by Next's own enviable standards could a 9 per cent improvement be considered a setback. The interim figures themselves were sparkling – profits from the core Next brand rose by 39 per cent. A 17 per cent increase in sales per square foot in its stores must be the envy of most of its competitors. As ever with Next, the question is whether this rate of progress can be maintained. There are solid grounds for confidence. The consumer is helping; spending on clothes, shoes and textiles is growing at the quickest rate for a decade. Management is also taking steps to ensure longer-term growth. The plan is to increase selling space at about 5-6 per cent a year, without opening more stores; sales density should continue to rise, while the home sales Directory offers good growth potential and healthy margins. With success overseas proving elusive, the low-risk franchising approach is a sensible route to go. In the absence of any convincing acquisition candidates, the group is right to stick to its knitting while lifting the dividend generously. The share remains at a slight premium to other clothing retailers, a rating amply justified by its superior performance and considerable unrealised brand potential.

Bowthorpe demands double digit growth of subsidiaries

By Tim Burt

Bowthorpe, the electrical components manufacturer, yesterday vowed to sell underperforming businesses as part of a year-long strategy review.

The company, announcing a 7 per cent increase in first-half profits, hinted it would not retain businesses that failed to produce double digit profits growth.

Mr Nicholas Brookes, chief executive, also signalled a more aggressive acquisition strategy to fill in the "white spaces" in some product areas. "We are looking for larger acquisitions than we have done in the past."

Mr Brookes was speaking after Bowthorpe reported increased pre-tax profits of £42.5m ($66.3m), compared with £39.6m, on sales up from £234.2m to £270.5m in the six months to June 30.

He said the figures were pleasing given the difficult market conditions in Germany, where the company is heavily exposed to the construction sector, and the sluggish demand from semiconductor manufacturers.

Profits were also held back by a £2.1m restructuring charge an unnamed UK subsidiary.

Those difficulties were more than offset by strong growth in the US, where profits rose from £8.7m to £12.6m – including contributions of £2.2m from new acquisitions.

Cordiant French buy

By Justin Marozzi

Cordiant, the advertising group which includes Saatchi & Saatchi, yesterday announced its acquisition of the outstanding 47 per cent minority interest in Saatchi & Saatchi France.

Cordiant purchased the tranche from current and former employees and directors for FFr171m ($33.72m).

Since 1993, Cordiant has assumed control of Bates Spain and Scholz & Friends in Germany.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Ask Central	6 mths to June 30	2.48	(3.08)	0.133	(0.228)	0.9	(1.7)	-	-	-	-	-
Baynes (Charles)	6 mths to June 30	126	(97)	10.53	(8.37)	3.84†	(3.17)	1.05	Nov 1	0.9	-	2.5
Biocompatibles	6 mths to June 30	5.02	(1.65)	7.96L	(3.36L)	16.22L	(8.58L)	-	-	-	-	-
Bourne End Props	6 mths to June 30	7.51#	(7.94)	0.386	(0.497)	0.5	(0.72)	0.55	Jan 3	0.55	-	1.2
Bowthorpe	6 mths to June 30	271	(234)	42.47♠	(39.64♠)	12.38	(11.31)	3.21	Dec 9	3	-	9.5
British Biotech	3 mths to July 31	0.53	(0.34)	8.03L	(6.95L)	1.4L†	(1.4L)	nil	-	nil	-	nil
Britannic Assur	6 mths to June 30	-	(-)	27.2	(30.9)	9.75	(11.87)	5	Oct 24	4.6	-	15.4
Bryant Group	Year to May 31	462	(519)	24.6	(45.8)	5.9	(11)	3.6	Nov 22	3.6	5.05	5.05
Costain	6 mths to June 30	360	(458)	19.2L	(10.4L)	38.2L	(21.6L)	nil	-	nil	-	nil
Dagenham Motors	6 mths to June 30	147	(134)	2.35	(2.51)	6.2	(6.4)	2.2	Nov 15	2.2	-	7.7
Hunting	6 mths to June 30	628	(566)	14.21L♠	(15)	25L	(5.9)	nil	-	4	-	10
Kwik-Fit Hldgs	6 mths to Aug 31	220	(182)	21.5	(18.1)	8.52	(7.35)	2.1	Oct 30	1.9	-	5
Lyles (S.)	Year to June 30	16.9	(16.8)	0.67L	(0.58L♠)	9.2L	(4.08L)	nil	-	nil	nil	nil
Midland Ind News	6 mths to June 30	56.4	(50.1)	3.69♠	(9.42)	1.17	(4.58)	1.3	Oct 24	1.2	-	3.5
Ni-R Group	Year to June 30	38.4	(41.4)	4.61	(1.31♠)	5.7	(1.6)	2.4	Nov 15	1.5	3.6	3.576
MTL Instruments §	6 mths to June 30	20.3	(17.3)	2.49	(2.56)	8.4	(9)	2.1	Oct 22	2	-	4.8
Next	6 mths to July 31	406	(333)	56	(50.1♥)	10.9	(10)	5	Jan 2	3.75	-	11.75
Ockham Φ	6 mths to June 30	-	(-)	10.9	(2.9)	12	(3.9)	1	Nov 12	1■	-	3.75■
Rugby Estates	6 mths to June 30	4.36	(3.86)	1.06	(0.609)	3.72	(2.22)	0.8	Nov 13	0.725	-	2.175
Seafield Res	6 mths to June 30	4.15	(4.11)	1.58	(1.36)	0.7	(0.9)	-	-	-	-	-
Staffware	6 mths to June 30	4.04	(1.82)	0.160	(0.146)	0.4	(0.7)	nil	-	nil	-	-
Tibbett & Britten	6 mths to June 29	340	(308)	10.6	(5)	15.9	(7.6)	5.2	Nov 12	5	-	16.2
Tilbury Douglas	6 mths to June 30	232	(215)	8.05	(7.09♥)	16.5	(14.5)	7	Nov 8	7	-	22
Towry Law	Year to June 30	16.3	(18.8)	0.487L	(0.328L)	2.7L	(2L)	nil	-	nil	nil	2.5
Tracker Network	6 mths to June 30	5.02	(4.17)	0.164L	(1.15L)	3.1L	(21.7L)	-	-	-	-	-
Ulster TV	6 mths to June 30	17.1	(16.8)	4.67♥	(3.66)	5.95	(4.67☆)	2.25	Oct 22	2☆	-	4.5☆※
UniChem	6 mths to June 30	719	(695)	24.2	(21.7)	9.3	(8.5)	3	Dec 31	2.7	-	8
Wassall	6 mths to June 30	497	(468)	22.4♥	(24.4♥)	8.9	(8.3)	2.1	Nov 15	1.55	-	5.5
Wolstenholme Rink	6 mths to June 30	43.4	(36.8)	2.63	(3.71)	21.9	(31.8)	9.5	Nov 11	9	-	24

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Gartmore Scotland	Year to July 31	269.3	(268.4)	1.51	(1.47)	11.18	(10.86)	3.5	Nov 22	3.2	11.1	10.5

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ☆Restated for share split. ※Special 20p dividend also paid. #Rental income. ■For 15 months.

Royal PTT Nederland NV with its registered office in Groningen, The Netherlands

kpn

Interimdividend 1996

The Board of Management of Royal PTT Nederland NV (KPN) has set the 1996 interim dividend at NLG 1.- per ordinary share in cash. The Board has declared that 62 dividend rights will entitle shareholders to one ordinary share of NLG 10.- par value. The number of dividend rights has been established based on the closing price of KPN shares on the Amsterdam Stock Exchange on September 16, 1996.

Depending on the form of payment previously elected by each shareholder, the interim dividend will be paid out to such shareholder either entirely in cash or entirely in ordinary shares. Payment in ordinary shares may be charged against the additional paid-in capital or, if the shareholder so elects, against the other reserves.

The interim dividend will be payable on September 30, 1996.

In exchange for 62 dividend rights the holders of ordinary shares who have opted for payment in shares will receive one ordinary share of NLG 10.- par value, entitling them to a partial share of the 1996 net income and a full share of the net income in subsequent years. Dividend rights must be submitted to ABN AMRO Bank N.V. in Amsterdam, ING Bank N.V. in Amsterdam or Rabobank Nederland in Utrecht.

Shareholders who have opted for a dividend in cash will receive NLG 1.- on their dividend rights, less 25% dividend tax.

Holders of ordinary shares will receive payment of the dividend in the form previously elected through the institutions where the dividend sheets were held in deposit at closing time on September 17, 1996.

The member firms of the Association for Security Transactions will receive the compensation stipulated in the 90-56 circular to enable shareholders to exchange their dividend rights free of commission.

The Board of Management

Groningen, September 17, 1996
Stationsplein 7

Next shares slip in spite of 12% rise in interim profits

By Christopher Price

Strong high street demand and the growing popularity of home shopping helped Next, the retail group, post a 12 per cent rise in pre-tax profits to £56m ($87.4m) in the six months to the end of July.

The rise was masked by an exceptional gain in last year's figures and operating profits rose 31 per cent to £49.8m.

Turnover rose 22 per cent to £406.4m.

However, disappointment among some analysts over the rise in like-for-like sales, concerns over the consumer recovery and profit-taking combined to knock the shares, down 25.5p to 274.5p.

Next's cash pile rose from £119m to £143m but Lord Wolfson of Sunningdale, chairman, was quick to damp speculation that Next was building up a war chest for an acquisition.

"Our cash position is only 5 per cent of our market capitalisation and supports our very progressive dividend policy. It also gives us flexibility for any other opportunities, such as the investment in our new distribution centre."

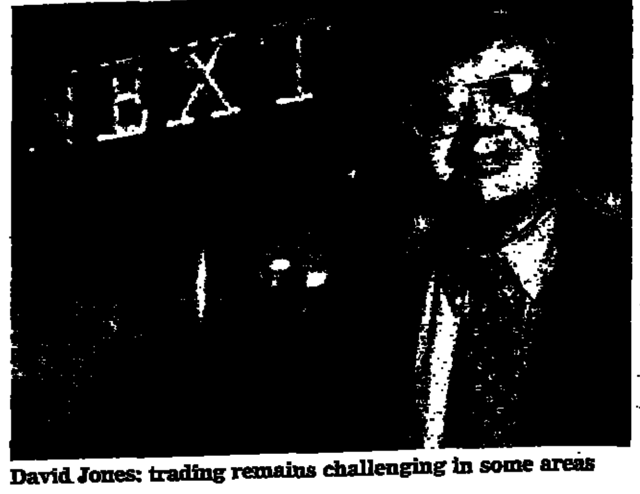
He also dismissed suggestions of a tie-up between Next's mail order business and the catalogue division of Great Universal Stores, a company he also chairs.

The high street retail business lifted operating profits 37 per cent to £30.1m on sales up 23 per cent at £273.2m. Mr David Jones, chief executive, said the retail environment was improving, although trading remained "challenging" in some areas. Like-for-like sales rose 9 per cent, slightly below analysts' expectations.

Next added an extra four stores year-on-year, and improved sales per square foot from £224 to £263. Lord Wolfson said that, with 306 stores, the group had reached near-saturation point in the UK and the challenge was in better use of space and expanding, where possible, existing stores.

Further growth was predicted for the Next Directory business, which increased operating profits 42 per cent to £11.8m on sales 23 per cent higher at £90.4m. Next has also begun a personal loan scheme which had attracted £20m of business in its first few months.

The company experienced mixed results overseas, despite sales growing 31 per cent.



David Jones: trading remains challenging in some areas

Lex, Page 19

Fall in price of copper costs Wassall £8m as it slips 8% to £22m

By Ross Tieman

Falling copper prices cost Wassall £8.1m in the first half of 1996, leaving pre-tax profits at the conglomerate 8.2 per cent lower at £22.4m ($34.9m).

But a 32 per cent rise in underlying operating profits, a 35 per cent interim dividend increase to 2.1p, and an upbeat statement helped the shares rise 15p to 307½p.

Brokers said that despite the setback from copper prices, Wassall was still showing strong earnings growth. "These were very, very good results," said Mr Robert Morton of Charterhouse Tilney.

Mr Geoff Allum of Henderson Crosthwaite said: "We have consistently ignored copper stock profits on the way up and the market is ignoring them on the way down."

Despite its difficulties over raw material prices, General Cable, the US manufacturer of household wiring and telecoms cables acquired in June 1994, now accounts for the lion's share of Wassall's profits. It recorded a 54 per cent rise in operating profits, to £17.9m. Its sales were £345.5m in the six months to June 30, against £497m for the group as a whole.

Since December 1995, copper prices have fallen from 135 cents a pound to about 95 cents – a similar level to that prevailing in mid-1994.

General Cable buys some $300m of copper a year and stocks and work in progress amount to about a quarter of that, by value.

Prices of finished-products are based on the previous day's copper price. So the risk of any rise or fall in copper prices between the beginning and end of the manufacturing process is taken by Wassall.

Aided by lower prices, demand for cable is now rising strongly, said Mr Christopher Miller, chief executive. DAP, Wassall's US manufacturer of household fillers and sealants, lifted operating profits by 29 per cent to £4.5m. The closures business, which produces 7bn plastic and aluminium bottle caps every year, saw operating profits stand still at £6m.

Mr Miller said the company's outlook was "very positive and gives us great confidence for the future". With net debt set to fall below £30m by the year end, Wassall was well placed to spend up to £200m acquiring more under-performing "mid-technology" companies, he said.

Biotech group works on pig clone

By Simon Kuper

PPL Therapeutics, the Scottish biotechnology company that genetically engineers sheep to produce medicines in their milk, is hoping to announce a collaboration with a British academic group offering new technology to prevent humans from rejecting pig hearts, kidneys and possibly lungs.

PPL, which floated in June and has produced a cloned sheep called Tracy, aims also to clone pigs with organs suited to humans.

Mr Ron James, managing director, said xenografts – animal-to-human transplants – could be "potentially more significant" for PPL than its lead product AAT, with applications in treating cystic fibrosis.

Mr James said US companies would probably achieve the first pig-to-human transplants in about two years. However, he added: "Our second generation products may be better than their first generation."

The waiting list for organ transplants was 20 times longer than the number of people who received transplants.

The number of organs available for transplant had fallen since motorcyclists had been made to wear helmets, he said. US hospitals charged each other about $15,000 per organ for transplants.

The company hoped to find a marketing partner for AAT "somewhere at the end of 1997 or in 1998". AAT was expected to reach the market in about five years.

The company announced a pre-tax loss of £1.69m (£687,000 profit) on sales down 35 per cent at £2.13m for the first half of 1996.

Pressure increases on Kepit to detail its plans

By Roger Taylor

The directors of Kepit are coming under pressure to publish full details of their plans to break up the £500m ($780m) fund. If they do not, investors may instead opt to accept a hostile bid for Kepit from a rival fund, TR European Growth.

In a move designed to ward off the Treg bid, Kepit, the Kleinwort European Privatisation Investment trust, announced two weeks ago its intention to break up the fund and pay cash back to shareholders.

But Treg has refused to withdraw its bid and continues to challenge Kepit to publish full details of its proposals.

One large investor in Kepit said yesterday it had decided to accept the Treg bid, because the directors were taking too long to publish their plans. The investor, a large institution which did not wish to be named, holds less than 3 per cent of the fund.

Most institutional investors are still thought to be against the Treg bid. At the first closing date for the bid only 1.02 per cent of shareholders had accepted.

Kepit described the result as dismal, but Treg has decided to keep its bid open until October 4.

Both Kepit and Treg are offering to sell off the fund's assets and pay cash back to shareholders. Both are also offering shareholders an alternative investment fund. However, the winning plan will be the one which pays the highest cash value.

Kepit's plans involve lower costs than Treg's and so are expected to produce more cash. Because the break-up plans involve selling a large portfolio in one go, the assets will have to be sold at a discount to the market price, likely to be about 3 or 4 per cent.

Crédit local de France
GENERAL MEETING OF BONDHOLDERS
Notice of Meeting

For the purpose of the alliance with Crédit Communal de Belgique, Crédit local de France will transfer to its subsidiary Local Finance all of its assets and liabilities, including all bonds issued by Crédit local de France.

The transferee of this asset transfer, will have the same assets and liabilities which CLF currently has, and at the date of the transfer will take the trade name of "Crédit local de France", the existing Crédit local de France becoming "CLF Holding".

The quorum requirements have not been met on September 16, 1996.

Holders of the bonds listed below, issued by Crédit local de France.

Lead Manager and Fiscal Agent Banque Paribas Luxembourg
- LUF 2,000,000,000 7.875% Oct 1994 - Oct 1999 (ISIN Code XS 00 52827648)
- LUF 1,600,000,000 8% Dec 1994 - Dec 2000 (ISIN Code XS 00 53848346)

Lead Manager and Fiscal Agent Kredietbank S.A. Luxembourgeoise
- LUF 1,000,000,000 10% Mar 1991 - Mar 1998 private placement

Lead Manager and Fiscal Agent Banque et Caisse d'Epargne de l'Etat, Luxembourg
- LUF 2,000,000,000 7.625% May 1995 - May 1999 (ISIN Code XS 00 5633845)

Lead Manager and Fiscal Agent Banque Générale du Luxembourg S.A.
- LUF 2,000,000,000 6.75% Aug 1995 - Oct 2000 (ISIN Code XS 00 58356824)

Lead Manager and Fiscal Agent Banque Internationale à Luxembourg S.A.
- LUF 2,000,000,000 6 5/8% Nov 1995 - Nov 2002 (ISIN Code XS 00 60495164)
- LUF 3,000,000,000 6 3/8% Jan 1996 - Jan 2003 (ISIN Code XS 00 62353445)
- LUF 2,000,000,000 53/4% Mar 1996 - May 2003 (ISIN Code XS 00 63591837)

are invited to attend the General Meeting to be held on October 3, 1996 at Banque Internationale à Luxembourg S.A. 69, route d'Esch, L-1470 Luxembourg, at time 2.30 p.m. in accordance with article 308, of the French law of July 24, 1966 the agenda of the meeting will be as follows:
- Board of Director's report on Crédit local de France's project to transfer all of its assets and liabilities to its subsidiary Local Finance.
- Approval of the transaction;
- Powers.

Holders of bearer bonds must obtain a certificate attesting that their securities are held in a blocked account from the bank, stock or institution managing their account at least (5) days before the date of the General Meeting.

Proxy forms will be sent to bondholders upon request from the Financial Agent in charge of each bond issue.

The board of Directors

MERRILL LYNCH EQUITY/ CONVERTIBLE SERIES
Société d'Investissement à Capital Variable
Registered Office: 69, route d'Esch, Luxembourg
R.C. Luxembourg B-29815

NOTICE TO SHAREHOLDERS

Shareholders are kindly invited to attend the general meetings to be held at the offices of Banque Internationale à Luxembourg S.A., 69, route d'Esch, Luxembourg on Friday, 27th September, 1996, at 4.00 p.m. with the following agenda:

A. Annual general meeting ("AGM"):
1. Reports of the Directors and of the Independent Auditor on the annual accounts for the period ended 31st May 1996;
2. Approval of the audited annual accounts at 31st May 1996;
3. Declaration of dividends (if any) as recommended by the Directors;
4. Ratification of the co-optation of a Director;
5. Discharge to be granted to the Directors and to the Independent Auditor;
6. Election or re-election of Directors and re-appointment of the Independent Auditor;
7. Approval of the same remuneration of the non-affiliated Directors;
8. Miscellaneous.

B. Extraordinary general meeting ("EGM"):
1. Approval to change the fiscal year end from May 31st to August 31st, beginning as of the fiscal year starting June 1, 1996, and decision to extend the transitory fiscal year from June 1, 1996, to August 31, 1997;
2. Amendment of Article 25 to reflect such change and of Article 10 to set the AGM to the second Friday in December, for the first time in 1997;
3. Amendment of Article 20 to increase the minimum sizes of the Company's, respective of its Portfolios', assets (presently at U.S.$10 million, respectively, to U.S.$3 million) to be terminated or merged by decision of the Directors in certain cases, so as to allow such decision(s) upon the assets of the Company falling for 30 consecutive days below U.S.$25 million or the assets of a Portfolio falling for such duration below U.S.$15 million.

Shareholders are advised that the ordinary annual general meeting requires no quorum of presence and decisions may be approved by a simple majority of the shares present and/or represented. In respect of the extraordinary general meeting, a quorum of 50 percent or of one-half of the shares issued is required at the first meeting and decisions may be approved by a two-thirds majority of the shares present and/or represented. If no quorum is reached, a second meeting would be convened which may decide without quorum requirements at the same two-thirds majority.

The Board of Directors

NOTICE TO BONDHOLDERS OF
Acer Incorporated
US$45,000,000
4 per cent. Bonds due 2001 (The "Bonds")

Further to the notice to Bondholders dated May 13, 1996 relating to the conversion of the Bonds, this is to inform you that the Shares or Entitlement Certificates received upon conversion of the Bonds may, at the election of Bondholders, be deposited into a depositary receipt facility in exchange for global depositary receipts ("Share GDRs", temporarily, the Entitlement Certificate GDRs) each representing 5 shares of Acer Incorporated (the "Company"). The Company has obtained permission from the ROC Securities and Exchange Commission for the shares received upon conversion of the Bonds to be deposited into such depositary receipt facilities and Share GDRs issued.

Regarding the conversion of Bonds into Share GDRs, please be advised of the following:

1. The Company and Citibank, N.A. New York, as depositary, have executed (i) a Deposit Agreement dated as of November 1, 1995 ("Share Deposit Agreement") and (ii) an Entitlement Certificate Deposit Agreement dated as of August 26, 1996 ("EC Deposit Agreement"). Copies of the Share Deposit Agreement and the EC Deposit Agreement are available for inspection at Citibank, N.A., 111 Wall Street, 5th Floor/Zone 2, New York, New York 10043, U.S.A.
2. Upon compliance with the terms of the EC Deposit Agreement, ECs issued upon the conversion of Bonds may be deposited with Citibank, N.A. New York, as depositary under the EC Deposit Agreement (the "EC Depositary"), for the issuance of Global Deposit Receipts each representing five ECs ("EC GDRs"). Upon the issuance by the Company of Share certificates in exchange for the deposited ECs, the EC GDRs representing such ECs will be deemed surrendered and the EC Depositary will take reasonable steps to deposit such Shares under the Share Deposit Agreement for the issuance of Share GDRs.
3. When exercising their conversion right, the Bondholders should specify in the Conversion Notice (as defined in the Indenture) whether upon conversion of the Bonds they elect to receive Shares or to deposit the Shares into the depositary receipt facility and receive Share GDRs. Failure to specify an option will be deemed to be an election not to deposit such Shares into the depositary receipt facility and to receive Shares (temporarily, Entitlement Certificates) only.
4. For more information on the matters set forth herein, please contact the following:

Shareholders' Service Department
Acer Incorporated
Tel: (02) 501-7506, Fax: (02) 501-9162
Address: 5F, 135, Sec. 2, Chien Kuo N. Rd., Taipei, Taiwan, R.O.C.

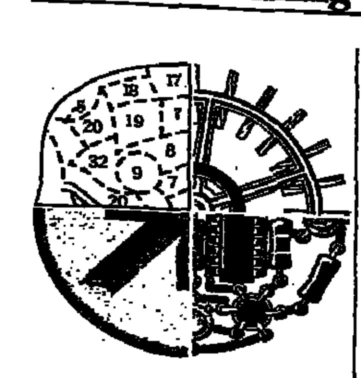
Corporate Finance & Investment Management
Acer Incorporated
Tel: (02) 545-5299, Fax: (02) 719-8780
Address: 6F, 156, Sec. 3, Min Sheng E Rd., Taipei, Taiwan, R.O.C.

Securities & Trust Department
Citibank, Taipei Branch
Tel: (02) 547-7685, Fax: (02) 717-9209
Address: 4F, 52, Sec. 4, Min Sheng E Rd., Taipei, Taiwan, R.O.C.

Date: September 19, 1996 CITIBANK

TECHNOLOGY

Worth Watching · Vanessa Houlder



Order out of disorder

US researchers are using entropy, the natural tendency towards disorder, to create order on a microscopic scale, according to a report in today's Nature magazine.

When particles of two different sizes are dispersed in a liquid, there is an attractive force between the larger particles. As the larger particles approach one another, the extra volume created for the smaller particles serves to increase the system's entropy as a whole.

Scientists at the University of Pennsylvania and the University of California in Santa Barbara used this principle to show that patterns etched into the walls of a container create local "entropic force fields", which can control the movement of the larger particles at a range of tens or hundreds of nanometres.

The researchers believe that these effects could be used to make the highly ordered particle arrays required for such things as mask materials in microelectronics and materials for clinical assays.

University of Pennsylvania: US, tel 215 8988260; fax 215 8982010.

Cool head in theatre

The clothing worn by surgeons to protect them from infection during an operation can become uncomfortably hot.

3M has designed a material that allows heat to escape while maintaining a barrier to micro-organisms.

The material has two layers, one of which is a microporous membrane that separates small and large molecules. As a result, it forms a barrier to viruses, such as those responsible for Hepatitis B and Aids, while letting through water molecules that carry heat away from the body.

3M: UK, tel (0)1344 858000; fax (0)1344 858278.

New line in telephones

A German telephone manufacturer has designed a phone that doubles as a cordless and a mobile phone. The phone uses normal lines in the home and a cellular network elsewhere. When close to home it automatically switches to the cheaper domestic tariff.

The chips for the different circuitry were integrated into a single module, which avoided the need to make the telephone bulkier and heavier. The equipment was developed by Hagenuk Telekom, with the Fraunhofer Institutes.

Fraunhofer Institute for Silicon Technology: Germany, tel 4821174218; fax 4821174250.

Lift which takes the strain

Getting up after a fall is often difficult for elderly or disabled people. Even a companion may be unable to help, as lifting somebody unaided puts a heavy strain on the back.

The Brunel Institute of Bioengineering, funded by Action Research, a medical charity, has tackled this problem by designing a conventional lifting device that is about half the price of a hoist or lift and can be used in more confined spaces.

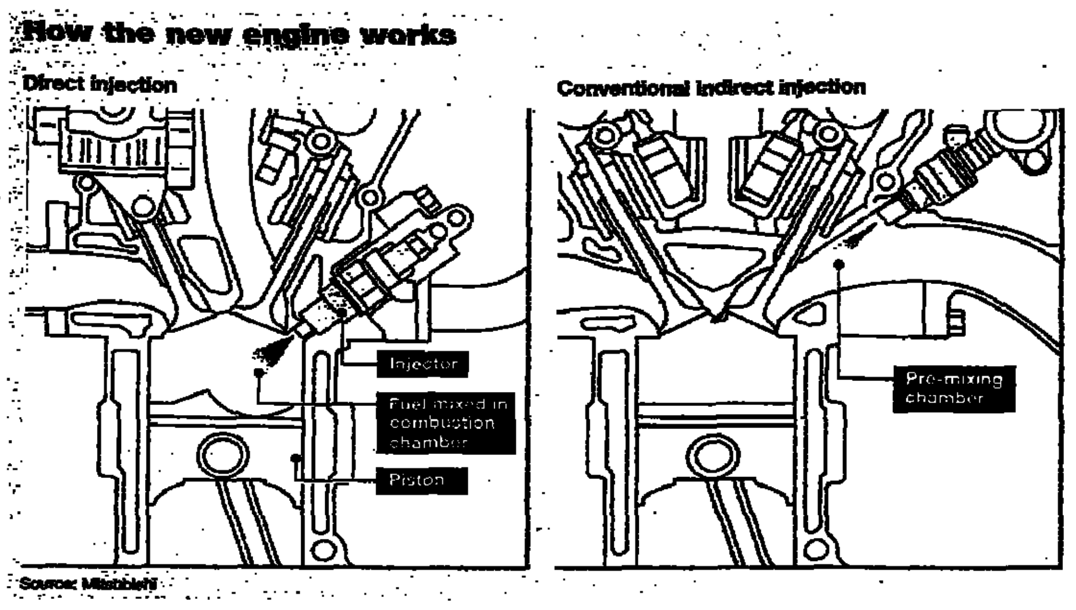
The Elevator has a plastic seat shaped so that that it takes very little effort to roll the person on to it. The person is then swung into a seated position by inflating a bag underneath the seat, with the help of a hand pump or a motor. He or she can then be helped to a standing position or transferred sideways to a chair.

The device, which will be manufactured by Cane & Able of Chesterfield, near Sheffield, will cost about £450 for the model with a manual hand pump, and £750 for the electric pump version.

Action Research, UK, tel (0)1403 210406; fax (0)1403 210541.

An engine revolution

The full production version of a direct injection petrol engine is a leap forward, says John Griffiths



The long development road of the motor industry has been littered with so-called "miracle" engines, promising everything from perpetual motion to the ability to run on water.

Most have been swept into wayside rubbish bins, for the simple reason that significant advances in engine technology are overwhelmingly the result of painstaking, persistent and expensive further development of known concepts.

Now the world's first full production version of the "direct injection" petrol engine is going on sale in Japan, under the bonnet of Mitsubishi Motors' new-generation Galant saloon and Legnum estate car ranges. Fuel is injected straight into the combustion chamber instead of into a pre-mixing chamber as with indirect injection, used in conventional internal combustion engines.

Mitsubishi has high hopes that the engine's advanced characteristics will have such strong appeal to technology-obsessed domestic buyers that it will almost single-handedly revive the company's declining sales inside Japan, before going on to win substantial sales in export markets.

While the engine will make its debut in the Galant and Legnum, Mitsubishi is committed to spreading the technology to every vehicle it produces, including the Charisma and Volvo S4 cars built at NedCar, Mitsubishi's and Volvo's joint venture in the Netherlands.

In spite of the often extravagant claims made for new engines, the fuel economy and performance claims made for Mitsubishi's engine do represent a quantum leap, combining the fuel economy of a diesel engine with the performance of a sporting petrol unit.

Better yet, from Mitsubishi's point of view, none of the world's leading carmakers is about to rubbish the claims.

"It's fair to say that direct injection marks the next big step forward for the petrol engine, as big as the first shift from carburettors to fuel injection," according to Jim Clarke, chief engineer, advanced engines, at Ford's power train division in Dearborn.

Not so good for Mitsubishi is that its pioneering technology will not be alone in the marketplace for long. Toyota has been quick to create a publicity "spoiler" in the middle of Mitsubishi's launch by declaring that its own direct petrol engine would be launched in home-market Carina and Corona models by the end of the year.

Over the next five to 10 years, direct petrol injection technology can be expected to permeate much of the new-car market, acknowledges Clarke. He will not, however, predict when Ford's first "DI" petrol model will take to the roads. "Of course we are working on it, just like every other major auto maker," he says.

The first Mitsubishi unit is an in-line, four-cylinder engine of 1.8 litres, with four valves per cylinder operated by twin overhead camshafts. That is no different from most modern petrol engines. The first spectacularly distinguishing feature is a compression ratio of 20:1, almost double that of conventional, indirect injection petrol engines. Not surprisingly given such a ratio, the engine packs an explosive punch: its 150-brake horsepower output is higher than Mitsubishi's current 2-litre conventionally-injected engine.

The new technology allows the engine to run on air-to-fuel ratios of up to 40:1 – far "leaner" than would have been thought feasible even five years ago, and better than a typical 15:1 to 18:1 for conventional petrol engines. Direct injection also allows a more stable and slower tickover, at 600rpm instead of 750rpm.

There are four distinguishing elements in the engine's design:

- An upright, straight inlet port controlling the airflow dynamics in the cylinder.
- A very high pressure fuel pump feeding purpose-developed injectors designed to promote fuel mixture swirl, both of which presented an engineering challenge, according to Mitsubishi
- Curved-top pistons to control the pattern of combustion and eliminate the possibility of a partially-unburnt fuel mixture.
- Spark plug and injector locations designed in a way that concentrates the fuel mixture near the plug for instant combustion, but without risking the spark being "doused" by the injection process – one of the biggest development hurdles such engines have faced.

The result of all this for the driver, says Mitsubishi, is:

- A 25 per cent improvement in fuel economy over a normal petrol engine in urban driving conditions, that matches a diesel engine. This is due partly to a 40 per cent reduction in fuel consumption when idling.
- An 8 per cent consumption improvement over a conventional petrol engine at speeds over 75mph.
- In comparison with a similar diesel engine, 85 per cent more power, 12 per cent more torque, 7 per cent better overall fuel economy, lower emissions, an 8 per cent weight saving and 40 per cent lower production costs.

Ford, for one, confesses puzzlement at the claims for production costs. Its own calculations indicate an extra cost of $200 (£128) to $400 a unit compared with a conventional petrol engine.

There is also some scepticism about emissions. One of the problems in developing "lean-burn" engines is an ordinarily high level of emissions of oxides of nitrogen. Mitsubishi claims to have solved this, however, by extensive recirculation of exhaust gases through the engine – again, made possible only by direct injection's combustion stability, claims Mitsubishi.

In all other respects, Mitsubishi's claims are in line with industry expectations of the technology. "If you take a baseline of 100 per cent for a petrol engine," says Clarke, "then in terms of fuel economy the indirect injection diesel and the direct injection petrol will both show up at 115 per cent to 125 per cent."

Neither can match for fuel economy the direct injection diesel, which first showed up in the unlikely form of Perkins-developed Rover Maestro and Montego diesels in the late 1980s. The DI diesel has economy nearly 35 per cent better than a petrol engine and is now offered by a number of carmakers.

But nor can the DI diesel unit come anywhere near the on-road performance of the DI petrol Mitsubishi. The latter's arrival may not mark, as Mitsubishi implies, the death of the diesel. But it may have to fight hard for life.

Vauxhall gets personal

Vauxhall, General Motors' UK cars subsidiary, has spent £3m on new technology to "personalise" its telephone customer service.

The system, at a new centre in Luton, identifies callers from their number and displays on a video terminal their details their vehicle's history.

It automatically directs the caller to the Vauxhall employee who has dealt with him or her in the past. People calling for the first time will be logged into a central databank so that they will receive the same personal service in the future.

If a call concerns an urgent problem with a car, the technology also links the computers at the customer's dealer to Vauxhall's own databases.

"So, when a problem is proving hard to solve, every possibility can be checked and explored electronically and in real time," says customer and dealer relations manager David Hyde. The centre is already handling more than 7,500 calls a week.

JG

OBITUARY

BILL BIRD
formerly
London Stock Exchange
died 13th September
after painful illness, bravely borne.
Funeral: Surrey & Sussex Crematorium, Crawley, 4.15 pm, Friday 20th September.
Donations to:
Harestone Marie Curie Centre,
Harestone Drive, Caterham, Surrey CR3 6YQ.

LEGAL NOTICES

PAUL ROBERTS (BRISTOL) LIMITED
(In Administrative Receivership)

NOTICE IS HEREBY GIVEN pursuant to section 48(2) of the Insolvency Act 1986, that a meeting of the unsecured creditors of the above named company will be held at The Coach House Small Business Centre, 2 Upper York Street, Bristol 2, on the 3rd day of October 1996 at 3.00 pm, for the purpose of having laid before it a copy of the report prepared by the Administrative Receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a creditors' committee to exercise the functions conferred on it by, or under the Act.

Creditors are only entitled to vote if: a) they have delivered to us at 27 Queen Square, Bristol, BS1 4ND, no later than 12.00 noon on the business day before the meeting, written details of the debts they claim to be due, and the claim has been duly admitted under the provisions of the Insolvency Rules 1986 and b) there had been lodged with us any proxy which the creditor intends to use on his behalf.

Dated this 9th September 1996
G L DOWN and R W J LONG

LEGAL NOTICES

IN THE MATTER OF
BESRES MIDLAND PLC
AND IN THE MATTER OF
THE INSOLVENCY ACT AND RULES 1986

In accordance with Rule 4.106, I John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, give notice that on 11 September 1996 I was appointed Liquidator by a resolution of members.

Notice is hereby given that the Liquidator of the above named company intends to make a first and final distribution to creditors. Creditors are required on or before 15 October 1996, being the last date for proving, to send in their full christian and surnames and addresses of their solicitors (if any), to the undersigned John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, the Liquidator of the said company, and, if so required by notice in writing from the said Liquidator, are, personally or by their solicitors, to come in and prove their debts and claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution.

A first and final dividend is intended to be declared and paid on 31 October 1996.

Dated 11 September 1996
J W POWELL

IN THE MATTER OF
BESRES DEVELOPMENT PLC
AND IN THE MATTER OF
THE INSOLVENCY ACT AND RULES 1986

In accordance with Rule 4.106, I John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, give notice that on 11 September 1996 I was appointed Liquidator by a resolution of members.

Notice is hereby given that the Liquidator of the above named company intends to make a first and final distribution to creditors. Creditors are required on or before 15 October 1996, being the last date for proving, to send in their full christian and surnames and addresses of their solicitors (if any), to the undersigned John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, the Liquidator of the said company, and, if so required by notice in writing from the said Liquidator, are, personally or by their solicitors, to come in and prove their debts and claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution.

A first and final dividend is intended to be declared and paid on 31 October 1996.

Dated 11 September 1996
J W POWELL

IN THE MATTER OF
BESRES SCOTLAND PLC
AND IN THE MATTER OF
THE INSOLVENCY ACT AND RULES 1986

In accordance with Rule 4.106, I John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, give notice that on 11 September 1996 I was appointed Liquidator by a resolution of members.

Notice is hereby given that the Liquidator of the above named company intends to make a first and final distribution to creditors. Creditors are required on or before 15 October 1996, being the last date for proving, to send in their full christian and surnames and addresses of their solicitors (if any), to the undersigned John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, the Liquidator of the said company, and, if so required by notice in writing from the said Liquidator, are, personally or by their solicitors, to come in and prove their debts and claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution.

A first and final dividend is intended to be declared and paid on 31 October 1996.

Dated 11 September 1996
J W POWELL

IN THE MATTER OF
BESRES LAKELAND PLC
AND IN THE MATTER OF
THE INSOLVENCY ACT AND RULES 1986

In accordance with Rule 4.106, I John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, give notice that on 11 September 1996 I was appointed Liquidator by a resolution of members.

Notice is hereby given that the Liquidator of the above named company intends to make a first and final distribution to creditors. Creditors are required on or before 15 October 1996, being the last date for proving, to send in their full christian and surnames and addresses of their solicitors (if any), to the undersigned John William Powell of Levy Gee, 4th Floor, Southfield House, 11 Liverpool Gardens, Worthing, West Sussex BN11 1RY, the Liquidator of the said company, and, if so required by notice in writing from the said Liquidator, are, personally or by their solicitors, to come in and prove their debts and claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution.

A first and final dividend is intended to be declared and paid on 31 October 1996.

Dated 11 September 1996
J W POWELL

INTERNATIONAL CAPITAL MARKETS

D-Mark securitisation taps seven-year sector

INTERNATIONAL BONDS

By Samer Iskandar

There was no sign yesterday of any slowdown in bond issuance. Although several deals competed for size and originality, a repackaged securitisation issue in D-Marks for Bank America Credit Card Corp managed to combine both.

The issue, for a total amount of DM1.25bn, pays a fixed coupon of 6 per cent, despite the fact that the assets that back it belong to an issue of securitised credit card receivables paying a floating rate, originally issued in July.

Lead manager Salomon Brothers said demand was boosted by the lack of a seven-year benchmark. Issuance in that area of the yield curve has been subdued, due to the lack of arbitrage opportunities.

The Finnish market also explored new territory, as ING Barings arranged the first public securitisation in markka, for the government housing agency.

The result was Fennica No 2, a two-tranche deal for a total of FM1.45bn. According to the lead manager, demand was motivated by recent redemptions as well as the government's decision to scale down its issuance programme. The floating-rate tranche, aimed at banks and corporate investors, met stronger demand than the fixed-rate bonds, typically the domain of pension funds and life assurance companies.

Several small issues in dollars were also launched, among them a deal arranged by Commerzbank and Nomura for DePfa Bank. The structure is very similar to an issue launched in May via the same lead managers, although the launch spread yesterday was 1 basis point tighter, at 14 points over two-year US Treasuries.

The issuer said the bonds were aimed at retail investors, who typically appreciate relatively high coupons. The slightly unusual maturity of the bonds, two years and two months, is partly explained by an arbitrage opportunity requiring a match with an existing dollar-denominated asset, leading ultimately to "satisfactory sub-Libor" funding costs, DePfa said.

Supranational borrowers were also active, with both the European Investment Bank and the World Bank tapping the market. The former raised DM300m via lead manager WestLB, while the latter issued Pta10bn of bonds maturing in 2021 through Banco Santander de Negocios and UBS.

The Republic of Uruguay took advantage of the strong appetite for emerging market bonds to issue $100m of 10-year paper led by Credit Suisse First Boston. With a coupon of 8⅜ per cent, the issue offered a spread of 160 basis points.

● Record bond issuance in the last few weeks has propelled the total amount raised in eurobonds and global bonds so far this year above last year's total issuance of approximately $400bn. Around $28bn was raised by international borrowers in the first two weeks of September, surpassing the $27bn of issues launched during August.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
SSLT 96-4, Cls A1(a1)‡★	957.3	(a2.)	100.00R	Jul 2001	0.225R	-	JP Morgan Securities
SSLT 96-4, Cls A2(a3)‡★	495	(a4.)	100.00R	Jul 2005	0.275R		JP Morgan Securities
DePfa Bank(l)	200	6.375	99.755R	Dec 1998	0.15R	+14(6¾%-98)	Commerzbank/Nomura
Siam City Bank	115	7.375#	99.474R	Sep 2001	0.50R	+100(6½%-01)	JP Morgan Securities
Republic of Uruguay	100	8.375#	99.573R	Sep 2006	0.75R	+160(7%-06)	CS First Boston
Cevel Alimentos(b)	100	11¼#	99.505R	Oct 2004	1.00R	+425(6%-99)	Citibank International
PCI Bank	100	(c)#	(c)R	Sep 2001	0.50R	(c)(6½%-01)	Merrill Lynch Intl
[illegible]							
BACCC, Series 96-1(d)	1.25bn	6.00	99.77R	Oct 2003	0.30R	+34(6%-03)	Salomon Brothers
European Investment Bank(l)	300	5.125	99.945R	Dec 2001	0.25R	+16(5%-01)	WestLB
[illegible]							
Inter-American Dev Bk(e,s)★	10bn	5.75	98.5375	Oct 1999	0.1875	-	Daiwa Europe
SWISS FRANCS							
Province of Buenos Aires	150	7.75	101.625	Oct 2003	2.50	-	Credit Suisse
[illegible]							
GECC(l)	200	6.00	99.61R	Dec 2001	0.25R	+3(8¾%-01)	ING Barings
LUXEMBOURG FRANCS							
Bank Austria	3.5bn	zero	58.55	Dec 2005	1.375	-	Crédit-Européen-BBL
[illegible]							
Deutsche Finance (Neths)	1000bn	zero	11.5909R	Oct 2021	0.10R	-	Deutsche Morgan Grenfell
[illegible]							
World Bank	10bn	7.20	100.83	Oct 2001	1.625	-	BSN/UBS
[illegible]							
Fennica No 2, Class A1(f1)‡	775	(f2.)	100.00R	May 2024	0.25R	-	ING Barings
Fennica No 2, Class A2(f3)‡	675	(f4.)#	100.00R	May 2024	0.25R	+29(l)	ING Barings

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) SLM Student Loan Trust. a1) Legal maturity: 26/7/04. Av life: 2.397 yrs. a2) 3-mth T-bills +48bp. a3) Legal maturity: 26/7/09. Av life: 7.05 yrs. a4) 3-mth T-bills +64bp. a5) Class B: $52.7m, 25/7/05, 8.81 yrs, 3-mth T-bills +93bp, perR. b) Puttable on 1/10/99 at 99¾% and on 1/10/01 at 99%. Callable on 1/10/01 at 99¾%. c) Priced today 120-130bp over Treasuries. d) BankAmerica Credit Card Corp. Backed by BA Master Credit Card Trust, 96-B, Class A, US$ floating rate certs. Legal maturity: 15/11/05. e) Redeemed in A$. f) Securitised rental housing loans originated by Housing Fund of Finland. f1) Callable on 20/5/01 at par. f2) 6-mth Helibor 18bp to 20/5/01, then +75bp. f3) Callable on 20/5/03 at par. f4) Priced today. Pays 6-mth Helibor +75bp after 20/5/03. f5) Class: FM57m, privately placed. l) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

Egypt hopes to cross symbolic debt rating line

Moody's will decide if the sovereign is investment grade

A guessing game has been occupying emerging markets professionals since it became known last week that Moody's Investors Service, the US credit rating agency, had sent analysts to Cairo to work out a first rating for Egypt's sovereign debt.

Guesses of a likely rating are falling either side of the line separating the triple B (or Baa) category from the double B (or Ba) class, but the odds appear to favour a high speculative grade.

Although one notch on Moody's rating scale does not make a big difference in absolute terms, this particular step from junk-bond status to investment grade is highly symbolic.

The rating is expected to be announced before November's Middle East and North Africa economic summit.

Foreign investors' perception of Egypt has steadily improved in recent months. "Six months ago, the perception of risk in Egypt was close to a Caa rating," one government official said. "Now, Moody's rating is likely to be just below investment grade."

Improving confidence is reflected in "better inflows of foreign investment", said Ms Suha Najjar, Middle East analyst at Nomura Research in London.

Egypt's macroeconomic picture is healthy. With more than $18bn of foreign reserves, its capacity to pay back debt is strong. An IMF reform package aiming to boost economic growth to 8 per cent and increase foreign reserves to $22bn is due to be ratified on October 11.

Mr Mohammed Younes, head of fund manager Concord International Investments in Cairo, is very bullish on the rating. He said, based on the macroeconomic picture, he would be "very disappointed if Egypt did not get an investment grade rating, Baa1 or A3".

But rating agencies also take into account factors such as currency risk transfer and political stability. Ms Najjar at Nomura warns that "although the fundamentals are good, the Egyptian currency is still overvalued by about 25 per cent".

A senior Egyptian financial consultant forecast a high non-investment grade rating, possibly Ba1 or Ba2, adding that Moody's was likely to be cautious because it is only five years since Paris Club lenders had to write off some $10bn of Egyptian sovereign debt.

Mr Mulham Alwani at HSBC Markets said: "The investor community would accept Egypt as investment grade, but in the cold light of day it is probably just below investment grade."

Mr Gamal Mubarak, executive director of London-based consultants MedInvest Associates, takes the opposite view. "Macroeconomic indicators point to an investment grade, but the final decision will be influenced by Moody's perception of Egypt's track record," he said, drawing a parallel with Poland, which was upgraded to investment grade just months after its first rating.

Samer Iskandar and Sean Evers

US Treasuries lifted by jump in July trade deficit

GOVERNMENT BONDS

By Lisa Bransten in New York and Peter John in London

Europe took a break from recent enthusiasm over European monetary union as rate rise worries blew in from the US.

■ US Treasuries posted modest gains in early trading on news of a jump in the July trade deficit. The yield on the benchmark 30-year Treasury, however, remained above 7 per cent as investors awaited the outcome of next Tuesday's Federal Reserve's Open Market Committee meeting.

Near midday, the long bond was 5/32 stronger at 96¾ to yield 7.005 per cent. The two-year note was unchanged at 99⅞, yielding 6.227 per cent. The December 30-year bond future was ¼ weaker at 108⅞.

The trade deficit surged from $8.2bn in June to $11.7bn in July – mostly because of a large drop in exports, suggesting inventories at US manufacturers may be higher than previously thought.

While most economists said the trade data may lead to weaker than expected gross domestic product growth in third quarter, many were sceptical about yesterday's figure.

"Trade data tend to be volatile. It should subtract from third-quarter GDP growth, but not as sharply as July data indicate," noted Mr Ed Yardini and Ms Debbie Johnson of Deutsche Morgan Grenfell in New York.

■ Nervousness about an increase in UK interest rates hit short-dated gilts yesterday as a sharp rise in retail activity revived the spectre of inflation.

Retail sales rose 1 per cent in August from July and 4.4 per cent year-on-year, compared with analysts' forecasts of a 0.5 per cent rise on the month and 3.5 per cent on the year. The release of minutes from the last meeting between the chancellor of the exchequer and the governor of the Bank of England further depressed rate-sensitive maturities.

Mr Kenneth Clarke said there would be a case for tightening rates if inflation pressures started to pick up and Mr Eddie George said he would like to see base rates – currently 5.75 per cent – rise to 6 per cent.

The general nervousness rippled along the yield curve. In the cash market, four-year paper fell by 5/16 to 103 9/16 while the benchmark 10-year gilt slid 5/16 to 97 11/16.

■ Spanish bonds continued their outperformance, with the 10-year yield spread over Germany falling from 218 to 216 basis points. Analysts reported strong domestic interest and pointed out that over the past couple of days some investors had switched into Spain from Italy.

Italian BTPs fell a third of a point to 103.05 with the 10-year yield spread over Germany rising from 298 to 304 basis points.

■ French debt prices eased on the announcement of budget details, which included a forecast deficit of FFr283.7bn in 1997.

The figure, which will be lifted by a FFr30bn social security deficit, left most economists arguing that France is unlikely to meet the Maastricht criteria of a budget deficit no greater than 3 per cent of GDP. OATs fell 14 basis points to 102.00.

■ Germany eased on the back of US rate rise concerns and a strong feeling that there will be no reduction in official rates when the Bundesbank meets today. On Liffe the 10-year bund future fell by 0.02 to 98.11.

■ In Moscow, demand for paper saw the average yield on an issue of six-month Treasury bills fall to 61.25 per cent at an auction yesterday, down from 67.97 per cent at the last auction of six-month paper a week ago.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	91.8050	+0.200	7.94	8.13	8.16
Austria		6.250	05/06	100.1000	–0.070	6.13	6.26	6.29
Belgium		7.000	05/06	104.2700	-	6.39	6.56	6.63
Canada *		7.000	12/06	97.3500	–0.350	7.37	7.46	7.24
Denmark		8.000	03/06	105.8400	–0.200	7.12	7.27	7.25
France	BTAN	5.500	10/01	100.7430	–0.090	5.33	5.45	5.45
	OAT	6.500	10/06	102.0000	–0.140	6.22	6.32	6.34
Germany Bund		6.250	04/06	100.5400	–0.010	6.17	6.31	6.27
Ireland		8.000	08/06	105.1400	–0.270	7.25	7.50	7.59
Italy		9.500	02/06	103.0500	–0.300	9.01†	9.08	9.32
Japan	No 140	6.600	06/01	121.1778	+0.230	1.76	1.86	2.19
	No 182	3.000	09/05	101.2542	-	2.83	2.91	3.20
Netherlands		8.500	06/05	117.4500	+0.030	6.06	6.23	6.25
Portugal		9.500	02/06	108.0500	+0.060	8.22	8.46	8.70
Spain		8.800	04/06	102.9000	+0.070	8.32	8.60	8.95
Sweden		6.000	02/05	89.2311	–0.330	7.79	8.16	8.25
UK Gilts		8.000	12/00	103–15	–9/32	7.02	7.07	7.07
		7.500	12/06	97–30	–13/32	7.79	7.88	7.79
		9.000	10/08	108–12	–7/32	7.91	8.01	7.90
US Treasury *		7.000	07/06	101–10	–5/32	6.80	6.96	6.45
		6.750	08/26	96–24	–5/32	7.01	7.14	6.73
ECU (French Govt)		7.000	04/06	102.5300	–0.230	6.63	6.71	6.79

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.24
Prime rate	8¼	Two month	-	Three year	6.42
Broker loan rate	7	Three month	5.31	Five year	6.61
Fed funds	5⅛	Six month	5.48	10-year	6.82
Fed funds at intervention	-	One year	5.84	30-year	7.02

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	123.92	123.84	–0.22	124.06	123.82	139,980	208,896
Mar	123.82	123.74	–0.22	123.94	123.76	1,555	17,286
Jun	123.14	123.06	–0.22	123.14	123.14	2	86

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Nov	Calls Dec	Puts Oct	Puts Nov	Puts Dec
120	-	-	-	0.01	-	0.11
121	2.90	-	-	0.01	0.08	0.16
122	1.90	-	2.21	0.01	0.15	0.34
123	0.93	1.23	1.48	0.08	0.36	0.57
124	0.21	0.62	0.89	0.32	0.71	0.96

Est. vol. total, Calls 19,771 Puts 10,898. Previous day's open int., Calls 136,612 Puts 132,898.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.98	98.11	-0.02	98.29	97.95	192168	215780
Mar	97.10	97.15	-0.01	97.24	97.04	227	1537

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
9800	0.27	0.63	0.85	0.87	0.16	0.52	0.74	1.72
9850	0.08	0.39	0.60	0.68	0.47	0.78	0.99	2.03
9900	0.02	0.23	0.41	0.52	0.91	1.12	1.30	2.37

Est. vol. total, Calls 13613 Puts 17490. Previous day's open int., Calls 153499 Puts 158238

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	117.78	117.64	-0.27	117.78	117.22	66505	71026
Mar		116.94	-0.27			0	550

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
11750	1.37	1.75	1.23	2.31
11800	1.10	1.50	1.46	2.56
11850	0.87	1.29	1.73	2.85

Est. vol. total, Calls 1652 Puts 2127. Previous day's open int., Calls 71465 Puts 100769

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	103.75	103.84	+0.04	104.57	103.57	128,185	69,845

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	108-12	108-04	-0-14	108-12	107-31	1016	16607
Dec	107-22	107-14	-0-13	107-26	107-08	66900	115317

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Oct	Calls Nov	Calls Dec	Calls Mar	Puts Oct	Puts Nov	Puts Dec	Puts Mar
107	0-37	1-03	1-25	1-46	0-09	0-39	0-61	2-00
108	0-07	0-35	0-56	1-17	0-43	1-07	1-28	2-35
109	0-01	0-15	0-32	0-58	1-37	1-51	2-04	3-12

Est. vol. total, Calls 2482 Puts 3208. Previous day's open int., Calls 21069 Puts 17441

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	92.04	92.06	–0.16	92.24	92.00	2,346	7,794

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	108–16	108–19	–0–01	108–19	108–11	16,075	31,906
Dec	108–01	108–02	–0–02	108–03	107–23	393,254	366,105
Mar	107–21	107–20	–0–02	107–21	107–13	10,793	22,077

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	122.10			122.37	122.10	2478	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Sep 18	Day's change %	Tue Sep 17	Accrued interest	xd adj. ytd		Low coupon yield Sep 18	Sep 17	Yr. ago	Medium coupon yield Sep 18	Sep 17	Yr. ago	High coupon yield Sep 18	Sep 17	Yr. ago
1 Up to 5 years (22)	121.60	–0.17	121.80	2.17	7.33	5 yrs	7.16	7.07	7.45	7.23	7.15	7.44	7.28	7.19	7.53
2 5-15 years (20)	148.41	–0.38	148.96	2.97	7.51	15 yrs	8.03	7.98	7.92	8.08	7.99	7.97	8.02	7.99	8.06
3 Over 15 years (8)	161.49	–0.35	163.04	2.11	9.83	20 yrs	8.13	8.09	7.95	8.12	8.09	8.00	8.13	8.09	8.08
4 Irredeemables (6)	186.96	–0.39	187.70	4.42	7.36	Irred.†	8.19	8.15	8.08						
5 All stocks (56)	142.66	–0.29	143.23	2.58	7.91										

Index-linked							Inflation 5% Sep 18	Sep 17	Yr. ago	Inflation 10% Sep 18	Sep 17	Yr. ago
6 Up to 5 years (1)	200.89	–0.04	200.97	3.54	4.43	Up to 5 yrs	1.18	1.14	2.86	–0.61	–0.66	1.73
7 Over 5 years (11)	189.59	–0.20	189.97	1.16	3.85	Over 5 yrs	3.56	3.58	3.53	3.35	3.38	3.33
8 All stocks (12)	189.71	–0.20	190.09	1.21	3.66							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 18	Sep 17	Sep 16	Sep 13	Sep 12	Yr ago	High*	Low*
Govt. Secs. (UK)	93.14	93.32	93.45	93.26	92.83	94.45	96.34	91.69
Fixed Interest	113.10	113.18	113.24	113.10	112.83	113.15	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11
Gilt Edged bargains	95.9	92.2	85.6	81.0	80.3
5-day average	87.0	85.1	81.7	79.9	78.7

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts* (Lives up to Five Years)						
Treas 3pc 1996	0.91		220⅝xd	–	220⅞	212[illegible]
Conversion 10pc 1996	9.94	5.83	100⅝	–	[illegible]	[illegible]
Treas 13¼pc 1997‡‡	12.94	5.85	102[illegible]	–	[illegible]	[illegible]
Exch 10½pc 1997	10.30	5.72	101[illegible]	[illegible]	107[illegible]	101[illegible]
[illegible]						

Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Treas 8½pc 2005‡‡	8.10	7.72	105	[illegible]	108[illegible]	101[illegible]
Treas 7½pc 2006‡‡	7.86	7.83	97[illegible]	[illegible]	101[illegible]	94[illegible]
Treas 7¾pc 2006‡‡	7.80	7.79	99[illegible]xd	[illegible]	103¼	95[illegible]
Treas 8pc 2002-6‡‡	7.85	7.85	106[illegible]	–	104[illegible]	97[illegible]
[illegible]						

Notes	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
Index-Linked (b)						
4⅝pc '98‡‡ (135.6)	0.82	2.11	119[illegible]	[illegible]	114	111[illegible]
2½pc '01 (78.3)	2.70	3.30	183[illegible]	[illegible]	182[illegible]	174[illegible]
2½pc '03 (78.8)	3.01	3.45	178[illegible]	[illegible]	178[illegible]	170[illegible]
4⅝pc '04‡‡ (135.6)	3.08	3.49	118[illegible]	[illegible]	118[illegible]	112[illegible]
[illegible]						

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on September 18

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	97¼	97⅜	–⅛	7.02
ABN Amro Bank 7¼ 05	1000	99¼	99½	–¼	7.50
African Dev Bk 7⅜ 23	500	95⅜	96	–¼	7.79
Alberta Province 7⅜ 98	1000	102¼	102⅜	–⅛	6.45
Asian Dev Bank 6¼ 05	750	94¾	95	–¼	7.16
Austria 8½ 00	400	105⅛	105⅜	–¼	6.72
[illegible]					
Sweden 8 97	2500	105	105⅛		3.40
United Kingdom 7⅛ 97	5500	104	104⅛		3.39
Volkswagen Intl Fin 7 03	1000	104⅞	105⅛	–¼	6.08
World Bank 0 15	2000	33⅛	33½	–½	5.91
World Bank 5⅞ 03	3000	100¾	101	–¼	5.74
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	101¼	101⅜	–¼	7.73
British Land 8⅞ 23 £	150	92	92¼	–⅛	8.95
Denmark 6¾ 98 £	800	100⅜	100½	–⅛	6.53
Depfa Finance 7⅛ 03 £	500	96⅜	96⅝	–⅜	7.80
EIB 8 03 £	1000	102⅛	102¼	–⅜	7.57
Glaxo Wellcome 8¾ 05 £	500	102⅞	103	–½	8.28
Hanson 10⅛ 97 £	500	103⅞	104⅛	–⅛	6.55
[illegible]					

FLOATING RATE NOTES

[illegible]

CONVERTIBLE BONDS

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

Data triggers dollar drop while sterling surges

MARKETS REPORT

By Richard Adams

The dollar dipped against the other major trading currencies yesterday as news emerged that the US trade deficit had ballooned to its highest level for eight years.

The wave of dollar selling sent it below Y109, aided by news of a strong Japanese trade surplus. But the dollar ended the day in London at Y109.07, from Y110.20 the previous day.

The trade deficit also helped the D-Mark regain ground, following the dollar's failure to break key resistance levels. The dollar finished at DM1.5084, half a pfennig down from DM1.5143.

Meanwhile, rampant high street spending figures in the UK led to an initial buying surge for sterling against the dollar. Analysts said the spending figures reduced the likelihood of a UK interest rate cut. The pound closed up, worth $1.5605, from $1.5551.

The sales figures kept sterling buoyant against the D-Mark, despite the dollar's fall. The pound was worth DM2.3537, slightly down from DM2.3548.

Rumours of a surprise French interest rate cut today, and the release of the French budget yesterday, left the D-Mark firm against the French franc. The D-Mark closed at FFr3.407, from FFr3.397, as the budget details were much as the markets expected.

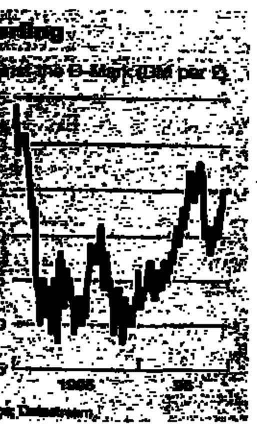
■ The dollar's fall – ironically coming after Bundesbank council member Mr Hans-Juergen Koebnick said the US economy's fundamentals supported the dollar/mark exchange rate – followed news that the US trade deficit in July shot up by over 40 per cent to $11.68bn.

The deficit was possibly the highest ever, and the largest since the current data series started in January 1992, according to analysts at HSBC Markets in New York.

Ms Patricia Elbaz, a technical analyst at MMS International in London, said the market had overbought the dollar against the D-Mark, in the hope of overcoming resistance at DM1.5170.

"In this case, resistance held firm. The market is now looking for more selling pressure," Ms Elbaz said. She added that the failure to break that level was a bearish signal, set off by the deficit figure.

The key support levels for the dollar are at DM1.49 and DM1.4730, and Ms Elbaz thought the dollar could go that low on the downward trend. "The markets are choppy at the moment so there could be a pull-back," Ms Elbaz said.



The yen's strength followed news the Japanese trade surplus for August dropped 21 per cent, to Y369bn from a year ago, but well above forecasts of Y160bn to Y314bn.

■ There was increasing pressure on the Finnish markka, after speculation among dealers in Helsinki and London that Finland would enter the European exchange rate mechanism during the EU finance ministers meeting at the weekend.

After Tuesday's activity – reputed to be the busiest trading day in the markka's history – the Finnish central bank cut its tender rate yesterday by 15 basis points, to 3.10 per cent. The bank was said to have intervened to keep the markka above FM3.0 to the D-Mark.

■ Mr Luis Angel Rojo, governor of the Bank of Spain, said yesterday Spain must be in the first phase of monetary union, and that it cannot count on delays in the original timetable.

Answering questions from parliamentarians, Mr Rojo said it would be "a clear mistake" for Spain not to be included in Emu. "Trying to join is fundamental. We cannot count on their being delays. We would risk arriving late and becoming desperate. We must be included in the first phase," he said.

The peseta strengthened against the D-Mark and the dollar following Mr Rojo's comments. Against the D-Mark it finished at Pta84.15, from Pta84.29, and against the dollar at Pta126.955, from Pta127.635.

■ The next two monetary policy meetings between Mr Kenneth Clarke, the chancellor of the Exchequer, and Mr Eddie George, governor of the Bank of England, will take place on September 23 and October 30, according to minutes of the last meeting.

● For the latest market update, ring FT Cityline on +44 990 209909

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■ Pound in New York

Sep 18	—Latest—	— Prev. close —
£ spot	1.5600	1.5560
1 mth	1.5596	1.5584
3 mth	1.5593	1.5586
1 yr	1.5600	1.5552

■ OTHER CURRENCIES

Sep 18	£	$
Czech Rp	41.2355 - 41.2905	26.4330 - 26.4530
Hungary	238.413 - 238.629	153.470 - 153.520
Iran	4682.70 - 4690.00	3000.00 - 3000.00
Kuwait	0.4674 - 0.4684	0.2996 - 0.3001
Poland	4.3321 - 4.3377	2.7770 - 2.7790
Russia	8417.76 - 8427.30	5396.00 - 5399.00
U.A.E.	5.7289 - 5.7329	3.6724 - 3.6728

POUND SPOT FORWARD AGAINST THE POUND

Sep 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5609	-0.0088	522 - 696	16.6315	16.5415	16.5297	2.3	16.4547	2.6	-	-	105.0
Belgium	(BFr)	48.4676	-0.0204	224 - 128	48.6300	48.4110	48.3726	2.4	48.1826	2.4	47.4126	2.2	106.8
Denmark	(DKr)	9.0647	+0.001	597 - 696	9.0983	9.0579	9.051	1.8	9.0306	1.5	8.9228	1.6	107.6
Finland	(FM)	7.0712	-0.0002	652 - 771	7.1110	7.0630	7.0668	0.7	7.0567	0.7	-	-	85.3
France	(FFr)	8.0190	+0.0178	161 - 218	8.0430	8.0002	8.0047	2.1	7.9808	1.9	7.8739	1.8	109.5

[illegible]

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Sep 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	[illegible]	-0.0422	104 - 154	10.6660	10.5890	10.5934	2.2	10.5514	2.3	10.3679	2.3	104.8
Belgium	(BFr)	[illegible]	-0.12	400 - 600	31.1970	30.9810	31.005	2.1	30.8975	2.1	30.395	2.1	108.4
Denmark	(DKr)	[illegible]	-0.0194	075 - 105	5.8375	5.7955	5.8015	1.5	5.7845	1.7	5.7155	1.6	106.9
Finland	(FM)	[illegible]	-0.0158	290 - 340	4.5678	4.5175	4.526	1.7	4.513	1.6	4.4675	1.4	84.6
France	(FFr)	[illegible]	-0.0062	385 - 392	5.1565	5.1285	5.1313	1.8	5.1174	1.7	5.0494	1.8	108.3

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

$ LIBOR FT London

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate (FFr 5m)

[illegible]

THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES AND AGRICULTURE

Gold demand 'down sharply in first half'

By Richard Mooney

The first half of this year saw a significant fall in world demand for gold, says Gold Fields Mineral Services, the London-based commodity research company specialising in the gold and silver markets.

In its first update of the 1996 gold market situation, published yesterday, GFMS attributes the sharp decline – "especially relative to the strong first half of 1995" – to falls in demand from the jewellery manufacturing sector and in coin demand "and to a (relatively) sharper decline in bar hoarding, particularly in Japan".

On the supply side of the equation it notes that rising mine production in Australia and Canada helped to reverse the overall downward trend of the previous two years. There was also strong growth in some developing countries "particularly in Latin America and Asia". These increases were enough to outweigh a continued decline in South African output, GFMS says.

"By contrast," it notes, "the 108 tonnes of official sector sales was only around half of what was seen in the first half of 1995." It cautions, however, that "certain assumptions have had to be made about the timing, mechanism and destination of the Belgian sale." (It was revealed in late March that that country's central bank had sold 203 tonnes of the metal, its fourth big disposal of precious metals from its reserves in seven years. It said the gold had gone to another central bank.) "In addition," GFMS says, "as further unreported sales may well have taken place during the first half of 1996, the final figure may ultimately prove to be higher than the initial estimate."

The update says there was "a sharp reversal" in the hedging policy of producers in the middle of the first half. "Thus, whereas almost 200 tonnes of gold reached the market through producer hedging during the first half of 1995, hedging made little contribution to the overall supply-demand balance in the first half of this year."

GFMS suggests that the price rise that peaked in early February at a six-year high of US$414.80 a troy ounce was restrained by sales from "the official sector" and attributes the subsequent erosion of gains to "sales from private investors as well as by weaker physical demand – in part the result of sustained higher local prices in many markets".

Dr Stewart Murray, one of the authors of the reports, suggested yesterday that "this disinvestment was primarily the product of disillusionment about gold's prospects of regaining, in the short term, the ground lost after February's price spike.

"In an environment of low US interest rates, many investors have appeared to favour the much more volatile soft commodities and the equities market rather than precious metals."

In the coming months, he said, the gold price's performance was likely to be determined by the levels of offtake in the physical market together with "the levels of producer hedging, official sector activity and the perceptions of western investors about gold".

Gold 1996 – Update 1: Available for £105 (US$165 outside the UK) from GFMS, Greencoat House, Francis Street, London SW1P 1DH

FIRST HALF GOLD SUPPLY AND DEMAND (tonnes)

	1996	1995		1996	1995
Supply			**Demand**		
Mine production	1,120	1,086	Jewellery	1,344	1,395
Official sector sales	108	196	Electronics	100	99
Old gold scrap	338	293	Official coins (sales)	31	46
Gold loans	1		Other fabrication	104	101
Forward sales		198	Bar hoarding	122	180
Option hedging		110	Gold loans		13
			Forward sales	2	
			Option hedging	24	
Disinvestment	160		Investment		50
Total	1,727	1,883	Total	1,727	1,883

Source: GFMS. Totals may not tally because of rounding of constituent figures

Report dismisses silver stock 'guestimates'

By Richard Mooney

World private sector silver stocks stand at present at somewhere between 780.3m and 1.083bn troy ounces, according to CPM, a New York-based precious metals and commodities and consultancy. The figure includes bullion and coin stocks but excludes metal held by governments.

In a special report contained within the company's silver review for the third quarter of 1996, CPM claims that it "summarily disputes and discards the extreme 'guestimates' circulated by groups trying to push silver prices higher or lower".

CPM describes the question of how much silver exists in unreported stocks around the world as "the single most important issue concerning the outlook for silver prices".

"You can ignore anyone who talks about 1.5bn ounces, 2.5bn ounces, or more silver lying around the market," said CPM managing director Mr Jeffrey M. Christian, discussing the results of the company's latest studies this week. "What they are saying has no relevance to the silver market, and the fact that they are saying it indicates they really do not understand the parameters of market-available silver stocks."

"If you accept, for the sake of argument, the proposition that such stocks exist," the report says, "you have to accept the proposition that they already existed in 1978-80, when silver prices rose 900 per cent, and that they have been there ever since.

"The fact is that this metal, the existence of which is unsubstantiated and unprovable, has nothing to do with the market."

The report notes that a substantial proportion of the unreported silver stocks is believed to be held in the vaults of Wilmington Trust Company in Delaware. "Wilmington Trust has been approved as a licensed Comex [New York Commodity Exchange] silver depositor, effective January 1, 1997," its says. "In advance of this date, Wilmington Trust will begin reporting the amounts of silver it has in its vaults that are eligible and suitable for Comex delivery."

Silver, Third Quarter 1996: Available for US$150 from CPM Group, 30 Broad Street, 37th Floor, New York, NY 10004. Tel. 212 785 8320; Fax 212 785 8325.

Copper prices rise strongly, aluminium also firmer

MARKET REPORT

COPPER prices rose strongly on the London Metal Exchange yesterday, boosted by US-led gains late on Tuesday and follow-through short-covering in subdued trade.

The three months delivery price finished after hours "kerb" trading at $1,925 a tonne, up $55.

Traders were looking for more short term gains, with the next upside target at $1,950. "The market was so short last week so we have had some covering today and we have also seen some trade buying coming in," said one.

ALUMINIUM prices rose with copper, the three months position gaining $13.50 to $1,433 a tonne. "The aluminium market was well oversold and due for a bounce," said a trader.

Compiled from Reuters

WTO farm committee faces its first challenge

Geoff Tansey on next week's Geneva meeting

When the Committee on Agriculture of the World Trade Organisation begins its two-day meeting next Tuesday in Geneva uppermost in its thoughts will certainly be the first ministerial meeting of WTO in December and the recommendations it must make.

The committee reviews progress in implementing the agreement on agriculture made in the Uruguay round of the Gatt, which brought agriculture into world trade rules for the first time.

Most business this month concerns member states' notifications about the commitments they make that show their compliance with the agreement. There are 100 notifications on the table and about 20 have been questioned by other members. These focus largely on tariff quotas, which allow reduced rates for certain quantities, and a couple on export subsidies. The questions tend to come from the major players – the Cairns group of food exporting countries, including Australia and Argentina, the European Union and the US – and cover three areas. One is market access, tariffs and tariff quotas. The current session will look at the results in 1995.

Another concern is levels of domestic support. Most member states have a maximum level allowed, but as they cover the whole agricultural sector there is a lot of flexibility. Many policies are also exempt from domestic support limits as they fall into a "green box". These includes funding for research, quarantine, pest and disease control, infrastructure, domestic food aid and stockholding for food security purposes. Also included are direct decoupled payments to farmers, which are separated from production decisions.

Developing country members have additional exemptions, mainly covering investment, such as subsidised credit, and input subsidies, mostly for fertiliser and water.

A set of "blue box" measures are also exempt from the reduction targets. These were agreed between the US and the EU at Blair House and cover direct payment under production limiting programmes, such as set aside and US deficiency payments.

All these different exemptions are one reason why for many countries the agreement on agriculture "leaves much to be desired", as WTO director General Renato Ruggiero put it in a speech earlier this month in Argentina.

WTO members who introduce an exempt measure must notify WTO about it immediately - as the US has with the latest Farm Bill. This mandatory reporting offers a structured way for exchange of information and the committee provides an opportunity for peer group pressure to affect agricultural policy, WTO officials believe.

Export subsidies are the final area for notification. New ones are prohibited for most members and existing subsidies, such as those widely used in the EU, are scheduled to be reduced over the next six years.

Committee members are free to bring up any points that concern them about others' trade policies, with the member challenged having to explain its position and how its policy fits in with WTO rules.

A major issue is the decision on mitigating the possible negative effects of the agreement on the least developed, net food-importing countries taken when ministers signed the Uruguay Round final act in Marrakesh in April 1994. Of the 48 LDCs recognised by the UN, 24 are WTO members. In addition there are 15 self-declared net food-importing developing countries who are also beneficiaries of the decision. Two more want to join the list.

Another issue is ensuring the availability of adequate supplies of basic foodstuffs on reasonable terms and conditions, with the developed countries having agreed to focus their aid to LDCs on increasing their agricultural productivity. The decision also called for donors to provide food aid as grants not loans and for the World Bank and IMF to have adequate short-term facilities for financing cereal purchases for countries in difficulty. The review of these areas is expected to take up most of the November meeting and produce recommendations for the ministers in Singapore.

The permanent representatives of WTO member governments in Geneva form the committee on agriculture but they draw in specialists when queries have to be dealt with. The committee meets in closed session in March, September and November, and in open session after six months.

It is just one of over two dozen committees monitoring the many agreements that make up the Uruguay Round. Others affecting agriculture include the Committee on Sanitary and Phytosanitary measures, which monitors measure to protect human, animal and plant health, the Council on Trade Related Intellectual Property, which deals with patents, and the Committee on Trade and Environment.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1392.5-3.5	1428-9
Previous	1382.5-83.5	1418-19
High/low	1392	1435/1423
AM Official	1391.5-2.0	1427-7.5
Kerb close		1433-3.5
Open int.	207,450	
Total daily turnover	56,754	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1210-15	1240-3
Previous	1185-205	1230-35
High/low		1241/1240
AM Official	1205-10	1241-2
Kerb close		1245-50
Open int.	4,877	
Total daily turnover	1,164	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	785-6	785-6
Previous	777-78	780-81
High/low	781	787/780
AM Official	780-1	782-3
Kerb close		787-8
Open int.	36,930	
Total daily turnover	11,991	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7320-30	7435-40
Previous	7310-20	7425-35
High/low	7305	7550/7370
AM Official	7300-05	7410-15
Kerb close		7450-60
Open int.	41,610	
Total daily turnover	12,072	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6065-75	6130-40
Previous	6040-50	6105-10
High/low	6050	6150/6100
AM Official	6050-55	6120-25
Kerb close		6135-40
Open int.	15,535	
Total daily turnover	5,858	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1009.5-10.5	1036.5-7.0
Previous	997-98	1024-25
High/low		1041/1028
AM Official	1003-3.5	1030.5-31
Kerb close		1040-41
Open int.	73,371	
Total daily turnover	22,428	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1909.5-11.5	1909.5-10.5
Previous	1878-81	1878-79
High/low	1913/1909	1925/1895
AM Official	1911-2	1910-11
Kerb close		1925-6
Open int.	190,828	
Total daily turnover	77,447	

■ LME AM Official £/$ rate: 1.5591
LME Closing £/$ rate: 1.5615

Spot 1.5606 3 mths: 1.5599 6 mths: 1.5608 9 mths: 1.5613

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	90.80	+2.00	91.80	89.00	645	3,752
Oct	90.25	+1.80	90.80	88.50	207	2,130
Nov	90.05	+1.85	89.90	89.90	27	1,476
Dec	89.65	+1.75	90.50	87.70	7,069	25,332
Jan	89.25	+1.65	89.10	89.10	8	1,071
Feb	89.05	+1.75	87.20	86.00	2	832
Total					8,884	58,052

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	383.10-383.50		
Opening	382.80-383.20		
Morning fix	382.90	245.496	478.825
Afternoon fix	383.00	245.230	475.265
Day's High	383.40-383.80		
Day's Low	382.50-382.90		
Previous close	383.30-383.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....4.13 6 months 3.91
2 months ....4.08 12 months 3.83
3 months 4.04

Silver Fix	p/troy oz.	US cts equiv.
Spot	323.65	504.60
3 months	327.75	510.70
6 months	331.90	517.30
1 year	340.50	530.85

Gold Coins	$ price	£ equiv.
Krugerrand	388-389	247-249
Maple Leaf	389.75-392.25	-
New Sovereign	397-400	255-257

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	383.0	+0.2	383.1	383.1	1	1
Oct	383.4	-	383.6	382.7	563	8,454
Dec	386.3	+0.2	387.0	385.5	12,603	1.039k
Feb	388.8	+0.2	389.1	388.4	2,300	13,026
Apr	391.3	+0.3	391.5	390.7	502	6,023
Jun	393.9	+0.4	394.3	394.3	28	11,123
Total					16,032	191,988

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	392.5	+1.8	393.4	390.5	5,612	13,668
Jan	394.4	+1.7	395.0	392.5	4,754	9,705
Apr	396.9	+1.7	398.0	395.8	119	5,670
Jul	399.9	+1.7	398.5	398.5	81	604
Oct	403.4	+1.7	-	-	2	23
Total					10,487	29,670

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	121.25	-	-	-	3	34
Dec	122.50	-	123.00	122.00	138	7,786
Mar	123.50	-	124.25	124.25	3	159
Jun	124.55	-	-	-	1	111
Total					135	8,089

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	504.0	+2.2	505.0	504.0	37	153
Oct	504.6	+2.0	503.0	503.0	19	10
Dec	509.6	+2.0	510.6	506.5	11,585	64,881
Jan	512.6	+2.0	-	-	-	24
Mar	517.6	+2.0	518.0	515.5	189	11,120
May	522.7	+2.0	522.0	520.0	31	6,367
Total					11,976	92,586

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	23.75	+0.44	23.90	23.28	42,176	41,536
Nov	23.37	+0.48	23.47	22.86	33,187	72,904
Dec	22.87	+0.47	22.92	22.46	13,510	59,575
Jan	22.29	+0.46	22.33	21.88	6,167	36,943
Feb	21.73	+0.43	21.73	21.44	2,287	25,078
Mar	21.16	+0.34	21.20	21.00	2,285	16,899
Total					110,978	404,804

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	34.5	-0.5	-	-	-	-
Mar	74.5	-0.5	-	-	-	-
Apr	67.5	-0.5	[illegible]	[illegible]	[illegible]	[illegible]
May	76.0	-0.5	-	-	-	[illegible]
Jun	84.5	-0.5	-	-	-	[illegible]
Total					[illegible]	[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

	Close	Prev
BFI	1018	1015

FUTURES DATA
All futures data supplied by CMS.

Nuts and Seeds
[illegible]

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Sep 17		
Daily	1017.46	1032.11

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

	Price	Prev. day
Sep 17		
Comp. daily	95.88	95.88
15 day average	99.94	100.83

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Sep 18	Sep 17	month ago	year ago
1913.8	1908.5	1940.9	2110.2

■ CRB Futures (Base: 1967=100)

Sep 17	Sep 16	month ago	year ago
244.40	244.15	[illegible]	[illegible]

■ GSCI Spot (Base: 1970=100)

Sep 17	Sep 16	month ago	year ago
200.09	200.22	204.15	180.85

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	72.825	-0.175	73.100	72.550	5,578	30,771
Dec	67.625	-0.350	67.950	67.525	4,750	32,068
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Oct	Jan	Oct	Jan
1350	[illegible]	[illegible]	[illegible]	[illegible]
1400	[illegible]	[illegible]	[illegible]	[illegible]
1450	[illegible]	[illegible]	[illegible]	[illegible]

■ COPPER (Grade A) LME	Oct	Jan	Oct	Jan
1800	[illegible]	[illegible]	[illegible]	[illegible]
1900	[illegible]	[illegible]	[illegible]	[illegible]
2000	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE LIFFE	Nov	Jan	Nov	Jan
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA LIFFE	Dec	Mar	Dec	Mar
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ BRENT CRUDE IPE	Nov	Dec	Nov	Dec
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

Dubai	[illegible]	[illegible]
Brent Blend (dated)	[illegible]	[illegible]
Brent Blend (Nov)	[illegible]	[illegible]
W.T.I.	[illegible]	[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	[illegible]	[illegible]
Gas Oil	[illegible]	[illegible]
Heavy Fuel Oil	[illegible]	[illegible]
Naphtha	[illegible]	[illegible]
Jet fuel	[illegible]	[illegible]
Diesel	[illegible]	[illegible]

■ NATURAL GAS (Pence/therm)

Bacton (Nov)	[illegible]	[illegible]

Petroleum Argus, Tel. London (0171) 359 8792

■ OTHER

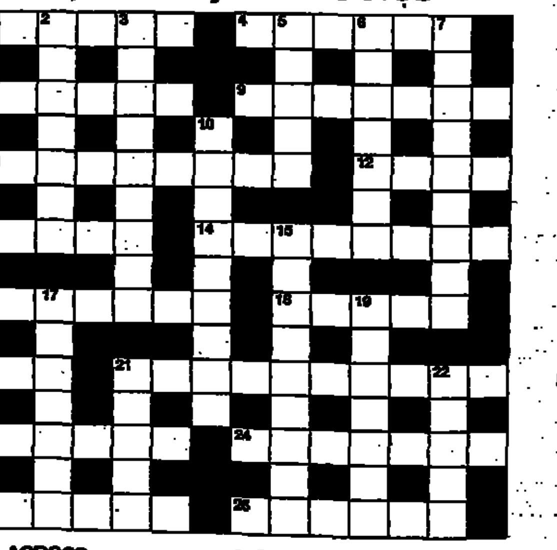
Gold (per troy oz)♣	[illegible]	[illegible]
Silver (per troy oz)♣	[illegible]	[illegible]
Platinum (per troy oz.)	[illegible]	[illegible]
Palladium (per troy oz.)	[illegible]	[illegible]
Copper	[illegible]	[illegible]
Lead (US prod.)	[illegible]	[illegible]
Tin (Kuala Lumpur)	[illegible]	[illegible]
Tin (New York)	[illegible]	[illegible]
Cattle (live weight)	[illegible]	[illegible]
Sheep (live weight)	[illegible]	[illegible]
Pigs (live weight)	[illegible]	[illegible]
Lon. day sugar (raw)	[illegible]	[illegible]
Lon. day sugar (wte)	[illegible]	[illegible]
Barley (Eng. feed)	[illegible]	[illegible]
Maize (US No3 Yellow)	[illegible]	[illegible]
Wheat (US Dark North)	[illegible]	[illegible]
Rubber (Oct)♥	[illegible]	[illegible]
Rubber (Nov)♥	[illegible]	[illegible]
Rubber (KL RSS No1)	[illegible]	[illegible]
Coconut Oil (Phil)§	[illegible]	[illegible]
Palm Oil (Malay.)§	[illegible]	[illegible]
Copra (Phil)§	[illegible]	[illegible]
Soyabeans (US)	[illegible]	[illegible]
Cotton Outlook 'A' index	[illegible]	[illegible]
Wooltops (64s Super)	[illegible]	[illegible]

[illegible]

JOTTER PAD

CROSSWORD

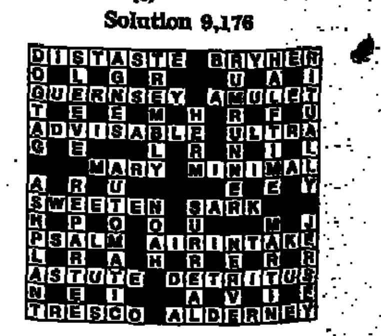
No.9,177 Set by CINCINNUS



ACROSS
1 Place and time for a pest (6)
4 Climbed like a fish, superficially (6)
8 One at threshold – and room for improvement (7)
9 Watch old boy attend to customers (7)
11 Butterfly embarrassed a naval officer (3,7)
12 Goddess of the rain (4)
13 Leader of Sherpas on mountain top, say (5)
14 How to follow teams in a subordinate exhibition (8)
16 Worried – by sign of courage of Crane, Stephen? (8)
18 Abandon holidays? (5)
20 Mark or Cliff (4)
21 Scullery maid recalled in play (10)
23 What's left of a miners' union (7)
24 Constant designer, pleasantly pungent (7)
25 Cover point with former premier (6)
26 Forestry centre goes after new sort of palm trees (6)

DOWN
1 Unattached spinster's beginning to go into town in Cornwall (5)
2 Reconstituting a scarce body (7)
3 Mary Keats, fashionable corsetiere? (4-5)
5 Intriguing party held by California graduate (5)
6 Shelter Dracula's heart – he's representing blood-suckers (7)
7 Port only follows fish (5,4)
10 Quiet inhabitant gets top post (9)
13 Those seeking rare chess moves (9)
15 Self-indulgent life of fool upset by musical (5,4)
17 Refuse to reveal how old clothes are (7)
19 Gold without sex, aluminium without sex (7)
21 I can't possibly stop talking (3,2)
22 Los Angeles has three quarters with narrow streets (5)

Solution 9,176



FT MANAGED FUNDS SERVICE

Offshore Funds

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda
UK Prof Advisers 0800 414181 Jersey: 01534 71696
Private Clients 0800 414181 00 352 25040420
From O'seas (44) 1732 777377 Hong Kong (852) 848 1000

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
A$ Accum		A$18.044		+0.008	5.90
ASch Accum		Sch248.48		+0.04	2.00
C$ Accum		C$18.965		+0.005	3.10
DM Accum		DM38.258		+0.008	2.00
DFl Accum		Dfl31.618		+0.005	1.70
ECU Accum		Ecu13.480		+0.005	3.10
FFr Accum		FFr69.895		+0.013	2.50
HK$ Accum		HK$120.85		+0.04	4.30
Lire Accum		123487		+14	7.70
NZ$ Accum		NZ$38.820		+0.028	8.90
NKr Accum		NKr112.19		+0.03	3.40
S$ Accum		S$25.965		+0.003	1.45
SPta Accum		Pta2722.2		+1.4	8.40
£ Accum		£13.078		+0.005	4.70
SKr Accum		SKr120.73		+0.03	3.90
SFr Accum		SFr20.378		+0.002	0.80
US$ Accum		$23.434		+0.009	4.40
Yen Accum		Y2590.2		—	0.10

Prices for dealing September 18

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1258, Hamilton, Bermuda 001 809 292 2780
Jupiter Tyndall World Umbrella Fund Ltd

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Eurobond		$15.71	16.51	+0.07	3.43
Money (2)		$14.18	14.90	+0.01	2.88
Mortgage (2)		C$23.59	24.77	+0.15	7.47
North American		$14.38	15.09	+0.04	—
Overseas		$18.48	19.39	-0.06	—
Tiger		$17.16	18.03	+0.05	—
UK Small Cos		£1.37	1.44	-0.02	0.00

Newport Investment Management
20 Reid St, PO Box HM 3366 Hamilton Bermuda
UK: 0171 336 6666 Dealing: 01481 707595

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Npt. Pacific	5	$4.5957		-0.0159	—
Npt Pacific		£2.9486		-0.0256	—
Newport Tiger Fd		$6.9956		-0.0371	—
Newport Tiger Fd		£4.4967		-0.032	—

Orion Fund Limited
6 Front St., Hamilton, HM11. Bermuda HM 11441 292 8370

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Orion Sep 12		$28.90		—	—

BERMUDA (REGULATED)(**)

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 01481 722963

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Island Global Fd	0	1949.2	1959.1	-14.9	0.38
Island Gold	0	4810.1	4780.7	-51.9	0.09
(Accum. Units)	0	8590.7	9115.7	-91	0.08
Island UK Fd	0	1039.1	1101.4	-8.2	3.43
(Accum Units)	0	2602.8	2653	-7.8	3.45

Prudential Fund Managers (Guernsey) Ltd
Po Box 61, St Peter Port Guernsey 01481 707000
Prudential Money Funds Ltd

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Managed Sterling		158.4	159.5	-0.4	3.87
Managed Dollar	5	$14.43	14.44	+0.01	3.73
Dollar Deposit		$10.13	10.14	—	3.82

Rothschild Asset Management (CI) Ltd
PO Box 242, St Peter Port, Guernsey 01481 713742/3

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
FAIB £ Bond	3½	£21.55	22.24	-0.01	5.40
FAIB US$ Bond	3½	$32.31	33.40	-0.09	5.84
FAIB £ Global	3½	£17.98	18.50	-0.05	5.17
FAIB US$ Global	3½	$30.48	31.53	-0.07	5.02
Far Asean Latin Am Dist	5	$14.094	15.06	+0.18	0
FAIRL £		£44.881		+0.017	4.71
FAIRL A$		A$49.814		+0.024	6.95
FAIRL C$		C$66.097		+0.023	2.97
FAIRL DFl		Dfl109.397		+0.019	1.85
FAIRL DKr		DKr397.81		+0.089	2.54
FAIRL DM		DM67.862		+0.018	2.02
FAIRL ECU		Ecu31.538		+0.009	3.22
FAIRL BFr		BFr2039.37		+0.330	1.49
FAIRL FFr		FFr444.362		+0.088	2.84
FAIRL HK$		HK$180.81		+0.080	3.92
FAIRL Lire		L143164		+89.0	7.72
FAIRL NZ$		NZ$46.059		+0.032	8.90
FAIRL S$		S$98.012		+0.014	1.77
FAIRL Pta		Pta4469.97		+2.28	6.31
FAIRL SF		SFr77.283		+0.005	0.74
FAIRL SKr		SKr202.02		+0.080	4.04
FAIRL U.S.$		$82.542		+0.021	4.29
FAIRL Yen		Y10714.06			0.00
FAIRL Man £		£28.317		+0.008	4.05
FAIRL Man DM		DM58.005		+0.047	7.91
FAIRL Man $		$31.244		+0.009	3.75
FAIRL Man Inc		£21.738		-0.022	2.15
FACFL £		£10.184		+0.005	4.95
FACFL A$		A$15.364		+0.007	6.77
FACFL C$		C$20.255		+0.004	2.77
FACFL DFl		Dfl50.295		+0.005	1.48
FACFL DKr		DKr151.59		+0.030	2.49
FACFL DM		DM40.321		+0.008	1.84
FACFL ECU		Ecu15.184		+0.004	2.97
FACFL BFr		BFr809.16		+0.120	1.79
FACFL FFr		FFr100.973		+0.019	2.39
FACFL HK$		HK$107.61		+0.030	3.84
FACFL Lire		L25787		+18.0	7.48
FACFL NZ$		NZ$23.957		+0.018	8.77
FACFL S$		S$30.182		+0.004	1.88
FACFL Pta		Pta2048.64		+1.92	6.27
FACFL SKr		SKr101.89		+0.030	3.77
FACFL SwFr		SFr30.107		+0.001	0.69
FACFL U.S.$		$15.247		+0.005	4.18
FACFL Yen		Y3500		—	0.00

Royal Bk of Canada O/S Fd Mgrs Ltd

Prolific International Fund Plc
53 Fitzwilliam Square, Dublin 2
Enquiries 0171 280 3700 Dealing 0800 285240

	Selling Price	+ or -	Yield Gr's
American F	267.1	-0.6	0.00
American F	$4.009	-0.002	0.00
Asia Pacific F	298.2	-2.2	0.00
Asia Pacific F	$4.187	-0.024	0.00
China Opportunities F	169.5	-0.9	0.00
China Opportunities F	$2.636	-0.087	0.00
European Growth F	300.2	-2.3	0.00
European Growth F	DM7.095	-0.024	0.00
Global Growth F	172.2	-0.5	0.00
Japan Growth F	166.1	-0.8	0.00
Japan Growth F	$2.416	-0.007	0.00
Sterling High Yield F	121.8	+0.3	5.29
Technology F	$4.986	+0.020	0.00
UK Equity Income F	189.1	-0.5	2.89
World Bond F	135.8	-0.4	5.00

Calpine Fund

	Selling Price	+ or -	Yield Gr's
NAV	$108.01	+0.32	—

Capital Vision Fund Plc

	Selling Price	+ or -	Yield Gr's
NAV	$8.57	-0.78	—

Chase Manhattan see Chemical Ireland

Chemical Ireland Fund Administrators Ltd

	Selling Price	+ or -	Yield Gr's
Eyes Road Australian Res.	A$1.22	—	—
Golden Orchid	$809.109	—	—
Korea Domestic Conv Bond	$9.88	—	—
Nikko East Asia Class A	$9.7587	-0.0041	—
Nikko East Asia Class B	$7.7132	-0.0152	—
Taj Performance	$8.00	—	—
Technology 2000	$17.48	—	—

Scottish Value Management (Ireland) Ltd (u)
Lower Abbey Street, Dublin 1 00 353 17903111

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
UK Growth		£2.45	2.49	—	—
European Growth		£2.34	2.38	—	—
Broker Value		£1.189		—	—
Relative Value II		£0.99		—	—

Singer & Friedlander Inv Funds Ltd (u)
21 New Street, Bishopsgate, EC2M 4HR 0171-626 6226

CM Investment Fund (Ireland)

	Selling Price	Buying Price	+ or -	Yield Gross
CM Korea Equity	$7.80		-0.32	—

Citizens Investment Trust Mngt Company

	Selling Price	Buying Price	+ or -	Yield Gross
CITC Frontier NAV	$17.75		-0.05	—
CITC Select Fund Plc				
Auto Shares	$8.83		—	—
Chemical Shares	$8.67		—	—
Electron Shares	$8.28		—	—
Finance Shares	$12.65		—	—
Steel Shares	$4.94		—	—
Telecom Shares	$12.40		—	—

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (a)

Fidelity Funds - Contd.

Fleming Group (a)

Mercury Asset Management S.A. - Contd.

Midland Intl Circuit Fund SICAV(a)

Alliance Capital

Credis Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation

CMI Ins Co Ltd/Clerical Med Gen Life - Contd.

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Old Mutual International – Contd.

PanEuroLife societe anonyme

30 Av Marie-Therese, Luxembourg

Premier Life

Alpha Fund Management Ltd

Aravis Capital Advisers LLC

Arc Investment Company Ltd

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES
[illegible]

BANKS, MERCHANT
[illegible]

BANKS, RETAIL
[illegible]

BREWERIES, PUBS & REST
[illegible]

BUILDING & CONSTRUCTION
[illegible]

BUILDING MATS. & MERCHANTS
[illegible]

CHEMICALS
[illegible]

CHEMICALS - Cont.
[illegible]

DISTRIBUTORS
[illegible]

DIVERSIFIED INDUSTRIALS
[illegible]

ELECTRICITY
[illegible]

ELECTRONIC & ELECTRICAL EQPT
[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.
[illegible]

ENGINEERING
[illegible]

ENGINEERING - Cont.
[illegible]

ENGINEERING, VEHICLES
[illegible]

EXTRACTIVE INDUSTRIES
[illegible]

EXTRACTIVE INDUSTRIES - Cont.
[illegible]

FOOD PRODUCERS
[illegible]

FOOD PRODUCERS - Cont.
[illegible]

GAS DISTRIBUTION
[illegible]

HEALTH CARE
[illegible]

HOUSEHOLD GOODS
[illegible]

HOUSEHOLD GOODS - Cont.
[illegible]

INSURANCE
[illegible]

INVESTMENT TRUSTS
[illegible]

INVESTMENT TRUSTS - Cont.
[illegible]

INV TRUSTS SPLIT CAPITAL
[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

PAPER, PACKAGING & PRINTING - Cont.

RETAILERS, FOOD

TELECOMMUNICATIONS - Cont.

AIM - Cont.

TEXTILES & APPAREL

LIFE ASSURANCE

RETAILERS, GENERAL

MEDIA

PHARMACEUTICALS

AMERICANS

TOBACCO

PROPERTY

TRANSPORT

CANADIANS

OTHER INVESTMENT TRUSTS

SUPPORT SERVICES

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£22½xd	—	£34½	£22½	1,503	3.5	ф
Barlow	‡†	590	—	810	525	1,195	2.3	-
Gold Flds Prop R		137xd	—	178	120	14.0	6.3	10.7
MK Props		88	—	98	75	3.22	11.4	-
SASOL	♥	845	—	770	475	3,777	1.7	-
SA Brews		£18¾	—	£26¼	£18¼	4,858	2.2	ф
Standard Bank		£26¼	-¼	£32¾	£21¾	3,148	1.4	22.5
Tiger Oats	†	790	—	1270	770	7,188	2.1	16.2
Tongaat-Hulett		796xd	—	1247	736	747.8	2.3	ф

OIL EXPLORATION & PRODUCTION

INVESTMENT COMPANIES

WATER

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM

OIL, INTEGRATED

OTHER FINANCIAL

LEISURE & HOTELS

PAPER, PACKAGING & PRINTING

TELECOMMUNICATIONS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by *Extel*, part of Financial Times Information.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in *pence* unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ *Merger bid or reorganisation in progress*
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a

FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

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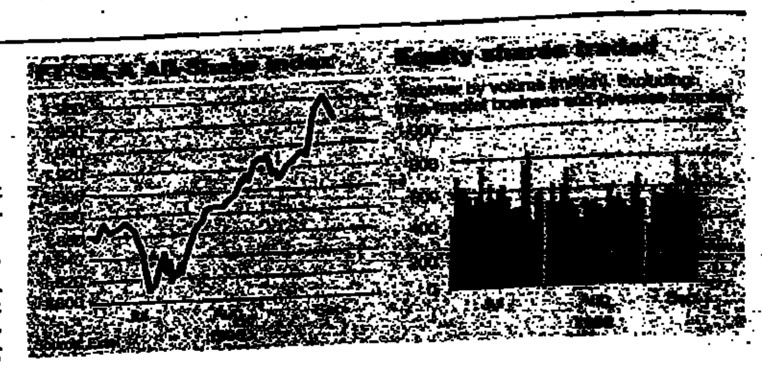
LONDON STOCK EXCHANGE

Interest rate concerns hamper UK stocks



MARKET REPORT

By Steve Thompson, UK Stock Market Editor

Any lingering hopes that the FT-SE 100 would pick itself up and make a dash for the 4,000 level before the end of the week were disappointed yesterday as convincing evidence emerged of a growing consumer-led UK recovery.

The news that retail sales had risen by 1 per cent during August surprised the stock market, which was looking for an increase much closer to 0.4 per cent.

That news was made worse by the release of the minutes of the end-July monetary meeting between Mr Eddie George, governor of the Bank of England, and Mr Kenneth Clarke, chancellor of the exchequer.

The minutes revealed that the governor favoured an increase in base rates to 6 per cent from the current 5.75 per cent.

At the end of the day, the FT-SE 100 settled 16.6 off at 3,955.7 and the FT-SE Mid 16.4 to 4,433.6.

Coming in the wake of a poor performance by US Treasury bonds, which dropped by around a full point overnight, gilts were always struggling yesterday.

The US news followed reports that two thirds of Fed districts favoured a 50 basis point rise in US interest rates after next Tuesday's meeting.

With the London market therefore bracing itself for potential bad news on rates in both the US and UK, sentiment in equities was always under pressure.

Matters were made even worse by a growing suspicion around the trading desks that Friday's big expiry of derivatives across global markets, but especially in London which sees the expiry of the FT-SE 100 and 250 futures and index options, might produce a big sell-off in the stock market.

There was widespread speculation that Friday will see the unwinding of a large number of over-the-counter, or individually tailored, options, written by the big global securities houses.

Never able to get into positive territory, Footsie stumbled at the outset of trading, opening almost 5 points easier. A half-hearted attempt to push on within thirty minutes of the opening quickly ran out of steam.

Thereafter the index remained in no-man's land until the opening of Wall Street which quickly saw the Dow Jones Industrial Average down by more than 20 points. Footsie accordingly took another tumble.

It was not all doom and gloom. The strategy team at Kleinwort Benson hoisted its year-end Footsie forecast from 4,000 to 4,200.

Mr Philip Isherwood at Kleinwort said that investors should "keep their eyes shut until next week", a reference to the expected turmoil in markets during Friday's big expiries, and instead focus on the excellent results season and potential for more bid activity.

"We had expected the FT-SE 100 to get to 4,200 to 4,250 ahead of the election but now we expect it to reach that level before Christmas," Mr Isherwood said.

Turnover at 6pm reached 622.9m. Retail activity on Tuesday was valued at £1.84bn.

Indices and ratios

FT-SE 100	3955.7	–16.6
FT-SE Mid 250	4433.6	–16.4
FT-SE-A 350	1974.6	–8.1
FT-SE-A All-Share	1950.79	–7.43
FT-SE-A All-Share yield	3.77	3.75
FT Ordinary Index	2838.4	–14.3
FT-SE-A Non Fins p/e	18.13	18.21
FT-SE100 Fut Sep	3964.0	–21.0
10 yr Gilt yield	7.81	7.81
Long gilt/equity yld ratio	2.16	2.16

Best performing sectors

1 Electricity ..... +0.5
2 Other Financial ..... +0.4
3 Transport ..... +0.4
4 Water ..... +0.3
5 Health Care ..... +0.3

Worst performing sectors

1 Extractive Inds ..... –1.5
2 Retailers: General ..... –1.4
3 Alcoholic Beverages ..... –1.1
4 Electronic & Elec ..... –1.1
5 Insurance ..... –0.9

BAA up on CAA hopes

By Joel Kibazo and Lisa Wood

A late run in UK airports group BAA saw the shares rise 8½ to 492½p in busy trade of 3.7m.

Dealers were initially puzzled by the strong move against the weak market trend but close observers of the stock later attributed the demand to hopes that the Civil Aviation Authority will next month confirm the pricing formula for BAA it proposed in July.

One analyst said: "Next month should see the ending of the consultation period on the pricing formula and frankly the best option for BAA is for the CAA to confirm the formula it has already proposed. We know things could have been worse, so confirmation will clear the air and allow the company to move ahead."

Lloyds TSB dips

Turnover in banking group Lloyds TSB rose to 14m, making it one of the day's most actively traded stocks, after two large buyers moved to raise their holdings in the issue.

A single buyer was responsible for an early morning trade of 3.5m, which was executed at 400p, while another big buyer was seen in the market following a well-received presentation at Merrill Lynch.

Much of the day's selling was done by a variety of holders and by the end of the session they had gained the upper hand, leaving the shares 2½ lighter at 397p.

The rest of the sector followed the market lower despite talk of various switches being carried out across the individual stocks. Barclays eased a penny to 948½p, while HSBC surrendered 8¼ to 1185p. National Westminster eased 2¾ to 683½p. Recent selling in *Abbey National appeared to* have dried up, which helped the shares buck the market trend. The shares moved 3 ahead to 621p.

Bass retreat

Bass fell 1¼ to 792p after a trading update in which positive news about brewing and pubs was offset by talk of a downturn in admissions at its bingo halls. The latter affected Rank Organisation, which softened 11 to 451½p.

Mr Paul Slattery of Kleinwort Benson said he considered the reaction to be *slightly knee-jerk since the* stock already reflected a weaker operating profit from the two companies' bingo divisions.

Guinness fell 11½ to 462½p, making the stock the second-worst performer in the FT-SE 100, following reports from LVMH in France that alcohol sales could be adversely affected by the French budget.

In the rest of the sector, transport and property group P&O, which reported figures earlier this week, hardened another 1½ to 595p. Volume was 2.4m.

Kleinwort Benson was said to be a fan and advised clients to buy the shares. However, the team at NatWest Securities remains more cautious and said: "Even though P&O's interim results were ahead of expectations, there is still evidence of pressures being faced in certain key business areas."

The broker suggested areas, such as the container business, will come under pressure in the second half *of the year, before the* recently announced Nedlloyd merger starts operating.

Strong profit-taking in Tibbett and Britten followed the release of interim figures that were just in line with market expectations. The shares tumbled 31 to 632½p.

The retreat in Tibbett and Britten also hit Transport Development Group where the shares eased 4 to 187½p.

Metals and mining group RTZ fell 14½p to 936p, with the slide attributed to the heavy overnight falls of mining stocks on the Australian stock exchange. Sentiment was further weakened by news that analysts at SBC Warburg had lowered their earnings forecasts for the group, to reflect lower copper and aluminium prices.

There was profit-taking in Next, which fell 26½ to 573½p despite better-than-*expected interim profits* which satisfied analysts sufficiently for a number of upgrades to be made. Panmure Gordon, for example, increased its full-year forecast to £155m from £148m. However, Mark Josephson at Panmure questioned whether the stock's premium to the market was too great.

Several other retailing stocks tumbled after profit-taking including Kingfisher, which fell 14 to 654½p and Dixons, which softened 13½ to 552½p. One analyst said these were among the stocks which would be most affected by interest rate increases.

Thorn added 9½ to 378½p, with NatWest Securities featuring its income attractions.

Pearson added 11½ to 683½p, attributed to an overhang of stock in the market. There was some chatter that Mr Kerry Packer, the Australian businessman, may be casting an eye over the stock but one analyst said it was idle talk.

Among utility stocks, turnover in National Power rose to 10m as the shares hardened 3 to 494p after the company said overseas earnings should help underpin the group's plan of maintaining real dividend growth. PowerGen was wanted and the shares advanced 8 to 506p in trade of 3.9m.

Bryant, the housebuilder, took second place in the *FT-SE Mid 250 performance* table, closing 6¾ firmer at 133p after a confident statement on second-half prospects accompanying the interim results.

Yorkshire Tyne Tees TV added 7½ to 1157½p after Granada announced it had exercised warrants in the stock. Granada added 5 to 883½p.

There was a two-way way pull in Asda, with a large buyer in the market responsible for the shares hardening to 104p in trading of 20m, the highest level in the FT-SE 100, at a time when an *increasing number of analysts* are turning more bearish on the stock.

The food retailing sector has been volatile since Tesco's new price initiative, with Asda seen by some analysts as the major potential victim. Tesco has for some time been taking market share from J Sainsbury.

BZW, in a note on food retailers, said it had turned seller on Asda and reiterated its positive long term stance on Tesco and Safeway. It believed the key factor in Asda's success had been price and Tesco, which is becoming more aggressive in that quarter, will better satisfy customers' requirements for quality and product range.

Meanwhile J Sainsbury continued to take a pounding, falling 2 to 367½p. Tesco hardened 1½ to 298½p.

FINANCIAL TIMES EQUITY INDICES

	Sep 18	Sep 17	Sep 16	Sep 13	Sep 12	Yr ago	*High	*Low
Ordinary Share	2838.4	2852.7	2859.9	2856.8	2833.3	2638.3	2885.2	2668.8
Ord. div. yield	4.01	3.99	3.98	3.99	4.03	4.07	4.22	3.76
P/E ratio net	17.20	17.28	17.29	17.27	17.11	15.83	17.29	15.80
P/E ratio nil	17.04	17.12	17.13	17.11	16.96	15.75	17.13	15.71

Ordinary Share index since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2847.8	*2850.4*	*2846.2*	*2845.8*	*2846.4*	*2847.2*	*2845.1*	*2840.8*	*2838.5*	*2850.8*	*2838.1*

	Sep 18	Sep 17	Sep 16	Sep 13	Sep 12	Yr ago
SEAQ bargains	36,915	41,734	42,182	39,132	35,946	28,410
Equity turnover (£m)†	–	1843.9	1511.3	1670.3	1802.6	1685.9
Equity bargains†	–	39,287	43,337	40,940	38,841	33,044
Shares traded (ml)†	–	807.0	536.8	610	609.4	609.1

†Excluding intra-market business and overseas turnover.

	Sep 18	Sep 17	Sep 16	Sep 13	Sep 12	Yr ago	*High	*Low
FT-SE AIM	1041.70	1043.10	1044.70	1042.90	1040.30	–	1140.40	965.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	396	Total Highs	94	Total contracts	43,923
Total Falls	787	Total Lows	46	Calls	21,935
Same	1,472			Puts	21,988

Sep 18 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	3978.0	3963.0	-16.0	3981.0	3958.0	16412	26047
Dec	4003.0	3990.0	-15.5	4007.0	3982.0	10438	39658
Mar		4000.0	-14.5			0	380

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4445.0	4445.0	-4.0	4445.0	4445.0	285	1320
Dec	4480.0	4480.0	+1.0	4480.0	4480.0	285	2555

■ FT-SE 100 INDEX OPTION (LIFFE) (3953) £10 per full index point

[illegible]

Calls 5,407 Puts 5,843

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Calls 4,455 Puts 4,839 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§100	F.P.	–	100	100	Amer Opps Ln 03/06	100		–	–	–	–
–	F.P.	12.1	68	62½	†Barbican Hlthcre	62½		–	–	–	–
–	F.P.	204.0	195	182½	Dairy Crest Grp	184½		W9.1	2.7	6.2	7.6
*	F.P.	5.17	4	4	†Dentmaster	4		–	–	–	28.5
§145	F.P.	50.7	246	148	†Elec Retail Sys	241		–	–	–	–
§	F.P.	2.39	53	41	†Fayrewood	45½xd		Z0.4	–	1.1	–
*	F.P.	206.3	242½	225[illegible]	GT Chile Growth	225[illegible]	-1[illegible]	–	–	–	–
§100	F.P.	90.9	109½	101½	†Gartland Whalley	104½		–	–	–	–
§12.5	F.P.	1.95	14¼	13¾	†Grosvenor Land	14¼		–	–	–	–
§95	F.P.	18.2	68½	64½	Hambros Sm Asn C	65	-½	–	–	–	–
§100	F.P.	24.4	98	94	Hoare Gvt 1000 C	97½		–	–	–	–
§12	F.P.	0.60	15	12	†Life Numbers	12		–	–	–	–
§	F.P.	0.16	6	2	†Life Numbers Wts	5		–	–	–	–
–	F.P.	0.38	8	3	Pemberstone Wts	6		–	–	–	–
§65	F.P.	12.1	70½	69½	†Polydoc	70½		–	–	–	–
*	F.P.	217.9	244	227¼	Regent Kingpin	227¼	-[illegible]	–	–	–	–
*	F.P.	2.17	25½	23[illegible]	Regent K'pin Wts	23[illegible]		–	–	–	–
§100	F.P.	82.2	96	90¼	Schroder Em Ctrs	94¼	-¼	–	–	–	–
§	F.P.	6.80	39	31	Schroder Em Wts	39		–	–	–	–
§66	F.P.	13.3	70	66	†Selector	68		–	–	–	–
–	F.P.	–	89½	85	St James Place	89		–	–	–	–
–	F.P.	–	73	69	Value Rlstn Tst	70¼		–	–	–	–

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Sep 17	% chg on day	Sep 16	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (38)	1974.93	–0.4	1983.01	2028.72	1.58	–	2320.73	1722.93
■ Regional indices								
Africa (13)	2849.61	+1.4	2811.74	2783.44	3.04	37.14	3553.86	2272.74
Australasia (6)	2125.79	–1.0	2148.38	2454.06	2.61	20.79	2927.34	2123.50
North America (11)	1765.74	–1.1	1785.72	1748.14	0.75	65.25	2186.39	1486.94

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FT - SE Actuaries Share Indices — The UK Series

	Sep 18	Day's chge%	Sep 17	Sep 16	Sep 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3955.7	–0.4	3972.3	3977.2	3967.9	3561.5	3.94	2.05	15.48	137.10	1639.76
FT-SE Mid 250	4433.6	–0.4	4450.0	4462.0	4453.3	3948.6	3.43	1.51	24.07	138.97	1799.86
FT-SE Mid 250 ex Inv Trusts	4467.1	–0.4	4484.1	4498.7	4490.4	3964.0	3.53	1.54	23.02	145.84	1816.85
FT-SE-A 350	1974.6	–0.4	1982.7	1985.8	1981.3	1773.9	3.83	1.95	16.75	67.07	1672.15
FT-SE-A 350 Higher Yield	1886.7	–0.4	1893.5	1893.5	1888.1	1757.0	5.09	1.84	13.37	85.92	1344.39
FT-SE-A 350 Lower Yield	2069.7	–0.4	2079.1	2085.2	2081.6	1795.9	2.69	2.14	21.73	48.72	1444.05
FT-SE SmallCap	2186.99	–0.1	2188.08	2187.59	2185.16	1984.58	3.04	1.59	25.81	51.05	1810.63
FT-SE SmallCap ex Inv Trusts	2183.39	—	2183.69	2184.76	2183.86	1964.36	3.24	1.67	23.15	53.82	1819.88
FT-SE-A ALL-SHARE	1950.79	–0.4	1958.22	1961.01	1956.76	1753.49	3.77	1.93	17.21	64.68	1677.04

■ FT-SE Actuaries All-Share

	Sep 18	Day's chge%	Sep 17	Sep 16	Sep 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3750.48	–0.5	3768.65	3780.06	3781.89	3022.40	3.71	1.68	20.74	93.97	1622.62
12 Extractive Industries(6)	4095.38	–1.5	4159.17	4196.26	4178.85	4145.10	3.97	2.66	11.83	109.19	1205.14
15 Oil, Integrated(3)	3879.33	–0.3	3892.72	3900.93	3900.37	3020.55	3.85	1.45	22.40	100.98	1723.24
16 Oil Exploration & Prod(15)	2734.60	–0.1	2736.38	2745.11	2782.81	2080.58	1.92	1.68	38.76	36.33	1647.83
20 GEN INDUSTRIALS(274)	2102.65	–0.4	2110.37	2115.71	2110.01	2016.08	3.99	1.76	17.79	64.12	1164.59
21 Building & Construction(34)	1197.33	.....	1197.10	1193.68	1187.97	924.88	3.47	1.60	22.53	26.35	1009.10
22 Building Matls & Merchs(29)	1978.05	–0.8	1993.25	2024.05	2008.89	1755.17	3.88	1.68	19.18	62.75	1009.13
23 Chemicals(25)	2511.55	—	2510.58	2495.51	2491.51	2487.72	4.03	1.52	20.33	79.87	1207.64
24 Diversified Industrials(16)	1609.27	+0.1	1607.43	1603.77	1607.77	1829.45	5.72	1.62	13.50	74.90	919.37
25 Electronic & Elect Equip(36)	2417.89	–1.1	2443.85	2446.09	2422.93	2210.05	3.26	1.47	25.93	58.79	1272.25
26 Engineering(71)	2597.53	–0.3	2604.36	2609.04	2601.68	2208.88	3.18	2.44	16.38	69.70	1583.42
27 Engineering, Vehicles(14)	3143.73	–0.6	3164.02	3180.15	3178.91	2597.64	3.43	1.71	21.32	98.19	1655.81
28 Paper, Pckg & Printing(26)	2661.37	–0.6	2678.46	2703.46	2707.61	2963.88	3.89	1.81	17.72	83.17	1125.92
29 Textiles & Apparel(19)	1227.46	–0.2	1229.97	1244.24	1247.88	1625.72	5.79	1.29	16.79	47.35	760.85
30 CONSUMER GOODS(91)	3712.99	–0.6	3736.13	3730.27	3710.35	3340.85	3.81	1.94	16.92	121.16	1394.46
32 Alcoholic Beverages(6)	2835.90	–1.1	2866.76	2856.24	2842.71	2935.94	4.45	1.62	17.35	91.68	1036.90
33 Food Producers(24)	2596.21	–0.4	2606.37	2629.96	2613.93	2496.63	4.04	1.86	16.67	76.14	1186.80
34 Household Goods(15)	2692.10	.....	2692.46	2695.88	2703.04	2633.58	3.78	2.25	14.70	62.90	1035.62
36 Health Care(20)	2057.94	+0.3	2051.40	2060.93	2056.41	1946.35	2.67	2.16	21.60	36.89	1259.57
37 Pharmaceuticals(13)	5593.71	–0.7	5632.67	5653.07	5612.37	4314.18	3.02	2.06	20.10	162.93	1929.72
38 Tobacco(1)	3896.61	–0.5	3917.76	3718.72	3722.95	4459.92	6.73	2.06	9.04	262.07	1003.44
40 SERVICES(252)	2584.13	–0.3	2592.41	2601.65	2604.85	2208.33	2.86	1.96	22.31	64.74	1359.83
41 Distributors(31)	2925.91	–0.5	2941.38	2940.76	2920.72	2796.07	3.01	1.74	23.92	63.15	1089.28
42 Leisure & Hotels(24)	3220.37	–0.4	3232.37	3229.95	3223.21	2519.17	2.72	2.05	22.42	165.07	1746.94
43 Media(45)	4398.05	+0.1	4393.58	4392.66	4402.57	3391.37	2.07	2.04	29.47	85.09	1607.29
44 Retailers, Food(14)	1923.94	.....	1923.55	1969.44	1982.10	2188.73	4.01	2.36	13.20	56.07	1239.17
45 Retailers, General(44)	2153.51	–1.4	2183.19	2192.78	2201.21	1806.64	2.99	2.07	20.16	52.63	1245.56
47 Breweries, Pubs & Rest.(23)	3091.92	–0.5	3106.14	3125.35	3118.59	2606.25	3.30	1.96	19.13	67.77	1499.02
48 Support Services(40)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Telecommunications(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(11)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(683)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(104)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
72 Banks, Merchant(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(127)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FT-SE-A ALL-SHARE(899)	1950.79	–0.4	1958.22	1961.01	1956.76	1753.49	3.77	1.93	17.21	64.68	1677.04
FT-SE-A Fledgling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

NORTH AMERICA

AFRICA

INDICES

US INDICES

Dow Jones	Sep 17	Sep 16	Sep 13	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5888.83	5889.20	5838.52	5889.20 (16/9)	5032.94 (10/1)	5889.20 (16/9/96)	41.22 (8/7/32)
Home Bonds	101.80	101.81	102.01	106.09 (14/3)	100.99 (15/7)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2056.76	2069.89	2057.62	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	13.23 (8/7/32)
Utilities	219.67	220.09	218.56	234.80 (12/2)	204.86 (30/7)	256.46 (31/8/93)	18.53 (8/7/32)

DJ Ind. Day's high 5929.51 (5920.64) Low 5830.38 (5823.72) (Theoretical‡)
Day's high 5887.70 (5905.47) Low 5849.82 (5837.41) (Actual‡)

Standard and Poors	Sep 17	Sep 16	Sep 13	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	682.94	683.98	680.54	683.98 (16/9)	598.48 (10/1)	683.98 (16/9/96)	4.40 (1/6/32)
Industrials♥	808.71	808.49	804.09	808.71 (17/9)	702.07 (15/1)	808.71 (17/9/96)	3.52 (30/6/32)
Financial	71.16	71.94	71.66	71.94 (16/9)	58.67 (10/1)	71.94 (16/9/96)	7.13 (4/9/74)
NYSE Comp.	364.43	365.42	363.70	365.42 (16/9)	321.41 (10/1)	365.42 (16/9/96)	4.64 (25/4/42)
Amex Mkt Val	567.16	570.94	570.26	614.98 (22/5)	525.60 (18/7)	614.98 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1203.31	1193.96	1188.87	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (3/10/74)

■ RATIOS

	Sep 13	Sep 6	Aug 30	Year ago
Dow Jones Ind. Div. Yield	2.17	2.24	2.25	2.40
	Sep 11	Sep 4	Aug 28	Year ago
S & P Ind. Div. yield	2.02	2.06	2.02	2.11
S & P Ind. P/E ratio	21.84	21.50	21.77	18.35

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Micron Tech	11,983,100	26⅞	+1
Pepsico	9,786,600	29	+¼
Royal Dutch	7,494,500	155¼	-2¼
Compaq	7,327,800	64⅞	+3¼
Hanson	5,546,800	13⅜	+⅛
Hewlett-Pck	4,986,400	48½	+⅝
Fresenius	4,411,400	21⅛	—
Motorola	4,340,600	51⅜	+1
Philip Mrrs	4,238,400	94	+2
Seagate Tch	3,589,000	56¼	+3⅞

■ TRADING ACTIVITY

● Volume (million)

	Sep 17	Sep 16	Sep 13
New York SE	442.590	430.260	487.502
Amex	19.845	20.077	23.273
NASDAQ	647.443	588.051	647.855
NYSE			
Issues Traded	3,226	3,203	3,226
Rises	958	1,400	1,725
Falls	1,430	985	721
Unchanged	838	818	780
New Highs	110	195	220
New Lows	33	22	19

FT FREE ANNUAL REPORTS SERVICE

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, September 18, 1996

	Stocks Traded	Closing Prices	Change on day
Sagami Railway	6.9m	496	-7
Toshiba Corp	6.8m	730	-3
Sumitomo Seika	6.4m	828	+54
Sanwa Bank	5.6m	2060	+70
Nippon Steel Cp	4.8m	345	-3
Sumitomo Mtl Ind	4.8m	319	+3
NKK Corp	4.7m	283	-5
Mitsui Co	4.4m	944	-1
Kobe Steel	4.3m	292	+2
NEC Corp	4.3m	1200	+10

NEW YORK STOCK EXCHANGE PRICES

4 pm close September 18

1996 High	1996 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
23⅞	17¾	AAR	0.48	2.1	20	1000	23¼	22⅞	22⅞	-⅛
46⅛	36⅛	AMP	1.00	2.6	18	3832	39¾	38⅞	39⅛	+½
97½	68	AMR			16	2633	81½	79¾	79⅞	-1⅛
50½	37⅞	ASA	2.00	5.1	25	167	39⅝	39¼	39¼	-⅛
48¾	38⅛	AbbtL	0.96	2.0	30	4620	47⅞	47⅛	47½	-⅛
17¾	12¼	AbitibiPr	0.40	3.0	6	78	13⅜	13¼	13¼	-⅛
20¼	13½	ABM Ind	0.35	2.1	17	279	17¼	16¾	16⅞	-¼
18⅝	13⅞	Acptocetn			38	1099	18½	17⅞	18⅛	+1¼
50⅜	37¾	ACE Ltd	0.56	1.2	11	1849	47¼	46⅞	47¼	
10⅛	9⅛	ACM Gvt In x	0.90	9.1	8	327	9⅞	9¾	9⅞	+⅛
7⅞	6⅝	ACM GvOpp x	0.57	8.3		113	6⅞	6⅞	6⅞	
9⅝	8⅜	ACM Man x	0.90	9.5		376	9½	9⅜	9½	
13⅞	6⅛	Acme Elect	0.32	4.6	116	164	7¼	6⅞	7	+⅛
17½	13⅞	Acme Mills			10	119	15¾	15⅝	15¾	+⅛
30¾	27¾	Acordia	0.72	2.4	17	72	30⅛	30¼	30¼	+¼
21⅜	12	Acuson			87	1828	19	17⅜	17½	-⅝
19⅝	17⅞	Adams Expr	0.48	2.5	1	402	19⅝	19½	19½	
21⅛	10¼	AdvMic			9	5637	14⅛	13⅝	14	-⅛
11⅛	8½	Advest Grp	0.16	1.6	7	80	10	10	10	
20⅛	9⅛	Advo Inc	0.10	1	0506	82	10⅛	10	10⅛	+⅛
51½	41⅛	Aegon x	1.46	2.9	15	78	50⅛	49¾	50	-¼
6¾	3½	Aerfix			3	217	5¼	5	5	-⅛
70¾	57⅝	Aetna	0.80	1.2	7	2275	69⅝	68⅛	68⅛	-1¼
36½	28¼	Aflac	0.40	1.2	14	1017	34⅞	34⅛	34½	-⅛
21⅛	17⅛	AGL Res	1.06	5.3	16	741	20⅛	19⅝	20	+⅛
[illegible]										

[illegible]										
48⅛	39¾	Baxter x	1.21	2.7	18	4892	45¼	44¾	44¾	-½
43⅞	20¼	BayNtwks				2734510	29	28⅞	28⅞	+1⅞
29⅞	25⅞	Bay St Gas	1.54	5.7	12	60	27	26¾	26⅞	+⅛
40⅞	15¾	BBN			5	1053	18⅝	18	18⅜	-⅛
22¾	19⅜	Bd Tr 1838 x	1.56	8.1		66	19½	d19⅜	19⅝	-⅛
8⅝	7¾	BEA IncFd x	0.72	8.5		402	u8⅝	8½	8½	-⅛
9⅛	8½	Bea Strat	0.81	8.8		110	9¼	9⅛	9¼	+⅛
24⅞	17¼	Bear Stns	0.60	2.6	6	t115	22⅞	22¼	22⅞	-⅛
44⅞	41	BearStPIA	2.85	6.4		z100	44⅝	44⅝	44⅝	
33¼	24	Bearings	0.56	2.0	14	137	28⅛	27¾	28⅛	-⅛

Continued on next page

4 pm close September 18

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
		Continued from previous page								
33⅛	22¾	Schnitzaud	0.60	1.9	15	168	32	31⅞	32	
20⅜	12	SchBt x	0.06	0.4	179	1122	14½	14⅜	14⅜	
23⅞	17	Scotsman	0.10	0.4	19	17	u23⅞	23¼	23⅞	+⅛
47½	38⅛	Scripps	0.52	1.1	26	293	46⅛	45⅞	45⅞	+⅛
16⅛	13⅛	ScudderNAsF	0.02	0.2		606	13⅞	d13⅛	13¼	
13½	11	ScudderNEsF	0.16	1.2		358	u13½	13⅜	13½	+⅛
29½	18	SeaCnB	0.17	0.9	26	71	20	19¾	19¾	
18	15	SeaC1.4625	1.46	9.7		2100	15⅛	15⅛	15⅛	
67¾	38⅛	S'gate			27	12417	57⅞	56¼	56⅞	-⅞
38⅜	30⅞	Seagrm	0.60	1.7	23	1711	35	34½	34⅝	-⅜
28	17⅛	Seagull En	1.20	6.4	12	2245	18¾	18⅝	18⅝	+⅛
38	25	Sealed Air	0.64	1.7	25	385	38	37¼	37¼	-⅝
53⅞	38¼	SearsR	0.92	2.1	16	15254	45⅛	44⅞	44⅞	-½
22⅝	19¼	SecCapSBI	1.24	5.6	20	240	22¼	22	22	-¼
13	11⅞	Seligm Sel x	0.84	6.9		79	12¼	12¼	12¼	-⅛
23¾	13⅞	Sensormat	0.22	1.2	18	1680	18⅛	17⅞	17¾	
46½	29½	SequaA	0.50	1.3	62	67	46	45⅞	45⅛	-1⅛
53⅞	39	SequaB	0.50	0.9	61	31	59⅛	58	58⅛	+⅛
30¾	19½	SvcCp	0.24	0.8	30	6105	30⅝	30⅛	30⅝	+¼
24½	19½	SvMstr	0.68	2.8	15	622	24⅜	23⅞	24⅛	+¼
6¾	4½	Sembiarch			11	1183	6¼	5⅞	6⅛	
48¼	28½	SGSThms			9	3135	48	46¾	47⅞	+1
15⅝	10⅝	Shaw Ind	0.30	2.0	30	1172	15⅝	14⅞	15¼	+¼
13½	10⅛	Shelby Wil	0.32	2.5	15	163	13⅛	12⅞	12⅞	-⅛
[illegible]										

- T -

[illegible]

- U -

[illegible]

- V -

[illegible]

- W -

[illegible]

- X - Y - Z -

[illegible]

Price data supplied by Telekurs

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FT Free Annual Reports Service

[illegible]

4 pm close September 18

AMEX PRICES

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
[illegible]							

4 pm close September 18

NASDAQ NATIONAL MARKET

Stock	Div.	P/ E	Sls 100s	High	Low	Last	Chng
[illegible]							

- A - B - C - D - E - F - G - H - I - J - K - L - M - N - O - P - Q - R - S - T - U - V - W - X - Y - Z -

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Dow weakens on interest rate jitters

AMERICAS

Profit-taking and interest rate concerns sent US shares modestly lower in midsession trading on WALL STREET as investors awaited the outcome of Tuesday's meeting of the Federal Reserve's Open Market Committee, *writes Lisa Bransten in New York*.

At 1 pm the Dow Jones Industrial Average was off 15.91 at 5,872.93 and the Standard & Poor's 500 had lost 1.79 at 681.15.

The American Stock Exchange composite fell 0.64 at 566.52. NYSE volume was 219m shares.

Shares remained jittery *about next week's FOMC* meeting, especially in the wake of last Tuesday's reports that a majority of heads of the Fed's regional *branches favoured an* increase in the discount rate. Those concerns rattled the bond market on Tuesday, but had little effect on share prices.

Also troubling to the market were figures showing a large jump in the US trade deficit, due mostly to a decline in exports. That data suggested that export sales at US companies might be lower than previously thought.

The technology-rich Nasdaq composite was nearly flat, with a gain of 0.01 at 1,203.32 as gains in some of the index's larger capitalisation issues offset losses among smaller, more volatile companies.

Microsoft, the largest company on the Nasdaq added $1⅞ at $135⅝ and Oracle was $1 stronger at $42⅝, while Netscape Communications lost $4⅜ at $41⅝ and US Robotics shed $1¼ at $66.

Elsewhere, Tambrand gained $2½ or 6 per cent at $44¼ after announcing that it planned a streamlining that would lead to *the closing of four of* its worldwide production facilities.

TWA fell another $¾ after its loss of $1⅞ on Tuesday *bringing its shares to $10⅞*. Early yesterday the carrier announced that the crash of flight 800, rising fuel prices and several other factors would cause third quarter results to be below those posted in the same period last year.

Chateau Properties lost $1⅜ or 5 per cent at $25¼ on news that it had rejected takeover bids from two rival real estate trusts and altered the terms of a proposed acquisition by ROC Communities. *Shares in ROC slipped $⅛ at $23⅞.*

TORONTO moved narrowly in moderate trading volumes. Dealers said very few leads came out of Wall Street during the morning session and at noon the TSE composite index was 1.90 ahead at 5,270.38.

SOUTH AFRICA

After two days of gains, shares in Johannesburg ran out of steam with both industrial and mining stocks moving lower in thin trading volume.

Pushed lower by modest profit-taking, the overall index came off 36 to 6,911.1. Industrials shed 56.5 to 8,155.2 and the golds index *dipped 20.2 to 1,756.3*.

Dealers said a day of consolidation was not surprising since the market had been "running ahead of itself" after the expiry of the lead index future on Monday. There had also been renewed worries about bullion prices and the fresh speculation over US interest rates was said to have been equally negative.

Paris enlivened by Alcatel rebound

EUROPE

Budget details and the currency markets kept French traders pinned down yesterday and PARIS traded narrowly in dull volume in *spite of a number of strong* individual performances.

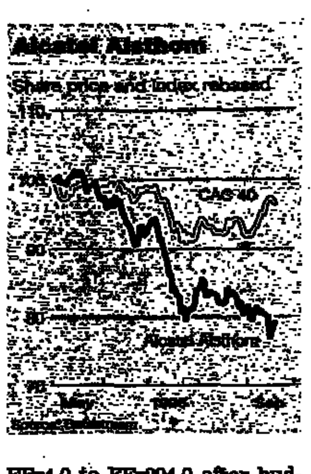
Both Alcatel Alsthom and Pernod Ricard shot forward, with the former up almost 3 per cent. But it was not enough to deflect the overall downtrend, and at the close the CAC-40 was off 8.13 at 2,072.73.

Alcatel Alsthom, which has fallen more than 6 per cent over the past month, jumped FFr11 to FFr386.4 after the company said that it would aim for an alliance with an Asian partner, if its offer for the Thomson group succeeded.

Alcatel is competing with Lagadere for the heavily indebted Thomson. Joint venture links are seen as one clear way of mitigating the *financial burden of any take*over. Lagadere eased FFr2.20 to FFr119.5.

Thomson-CSF shares were up FFr2.90 at FFr154.4, as traders speculated on the level at which minority shareholders were to be bought out following any successful bid for the Thomson group.

Michelin ran into profit-taking after its recent, results-driven rally. The shares ended off FFr7.9 at FFr257.3. Pernod Ricard rose FFr4.0 to FFr294.0 after budget alcohol duty increases came in as expected.



ZURICH gave a warm welcome to SBC's plans to restructure its Swiss business and for a radical change in its provisioning method which, analysts said, would considerably reduce the bank's long-term earnings volatility.

The shares rose SFr4.75 to SFr241.50. Other banks were weak early in the day on switching into SBC. By the *close, however, they had* overcome the weakness on the view that they would be likely to take similar measures. UBS rose SFr16 to SFr1,160 and CS Holding was SFr1 higher at SFr123.75.

The broad market was flat with the SMI index 0.1 higher at 3,690.1.

Nestlé continued its week-long decline, giving up SFr5 to SFr1,384. Adecco tumbled SFr11 to SFr337, following Manpower's downward path overnight in New York. The US temporary employment group lowered its earnings estimates on the back of weakness in the French economy in the third quarter of the year.

MILAN was again dominated by Olivetti as the troubled company responded to the bourse watchdog's request for further financial information and as speculation mounted that the chief executive might be replaced at an extraordinary board meeting after the market closed.

The stock was suspended for the first two hours of the session to allow the market to absorb the information provided by the company. Once readmitted, however, it spent much of the session suspended for excessive gains. The stock registered a *last valid price of L510.7*, up L44.7.

The broad market was weak, further pressured by a corruption inquiry involving *the head of state railways*, which, an investigating magistrate indicated, could widen to involve major political figures. The Comit index fell 5.87 to 597.29.

Against the trend, Gemina rose L56.9 to L714.5 on Tuesday's announcement that the holding company swung to a profit in 1996's first half.

FRANKFURT moved lower with the DAX index dipping 5.23 to an Ibis-indicated 2,621.20 and trading narrowly ahead of tomorrow's futures expiry. *Turnover* was described as moderate with most traders keeping their books level in the run up to expiry of the DAX September future contract. Where there were selling pressures, these were said to have been modest.

Motor shares were steady with Daimler-Benz making good earlier losses to end up 35 pfennigs at DM83.70.

AMSTERDAM traded quietly, with the AEX edging lower in thin volume. It closed off 1.11 at 583.16.

Heineken continued to gain ground, rising Fl 1.00 to *Fl 306*. Polygram rose 90 cents to Fl 93 on the back of the recent strong performance by Philips. Nedlloyd fell 80 cents to Fl 44 after a number of brokers turned negative on the shares.

HELSINKI saw brisk demand for TT Tieto which drove the data services group up FM20 to a record high of FM270 on foreign purchases attributed to a recommendation last week from Merrill Lynch.

The Hex index fell 14.38 to 2,142.24, with the market unimpressed by the central bank's 15 basis point easing of its key tender rate to 3.10 per cent.

BRUSSELS featured a star performance by Tractebel, the utility holding company, that jumped BFr700 to BFr14,800, above the BFr14,500 offer price from Société Générale de Belgique.

SGB, BFr15 higher at BFr2,555, announced late on Tuesday that it had agreed to raise its stake in Tractebel to 65 per cent and to extend the offer to the remaining 35 per cent at a price of BFr14,500 per share. It also offered shareholders a free put warrant, exercisable at BFr14,500 in three years.

The broad market was flat and the Bel-20 index eased 1.5 to 1,754.65.

Written and edited by Michael Morgan and Jeffrey Brown

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Sep 18 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1695.80	1696.07	1696.48	1696.17	1695.69	1694.49	1693.12	1693.30
FT-SE Eurotrack 200	1764.25	1765.50	1765.32	1764.82	1765.07	1762.47	1762.24	1761.43

	Sep 17	Sep 16	Sep 13	Sep 12	Sep 11
FT-SE Eurotrack 100	1698.93	1700.97	1687.91	1676.88	1685.88
FT-SE Eurotrack 200	1765.61	1771.51	1763.06	1747.48	1735.18

Base value 1000 (26/10/90); Highday 100 - 1697.14; 200 - 1766.44 Lowday 100 - 1692.18 200 - 1759.33 † Partial.

Mexico City reverses decline

Mexico City reversed an early fall as foreign bargain hunters stepped in after Wall Street moderated its recent gains. The IPC index picked up 11.03 to 3,364.82 at midsession, further supported by strong demand from local investors.

C shares in Grupo Modelo, the brewer, advanced 3.9 per cent to 40.40 pesos after a long-term buy recommendation from the London-based broker, Kleinwort Benson, on Tuesday.

BUENOS AIRES was flat in hesitant trade ahead of the congressional debate on tax reforms. The Merval index stood 0.80 higher at 546.12 by midsession with investors anxious to assess whether President Carlos Menem would succeed in galvanising Peronist support in congress *for his reforms.*

SAO PAULO was weak at midsession, continuing Tuesday's decline on lingering worries over US interest rates. The Bovespa index fell 129 to 64,995.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: September 13th 1996	% Change over week	% Change on Dec '95	Local currency terms: September 13th 1996	% Change over week	% Change on Dec '95
Latin America	(249)	535.37	+1.0	+13.5			
Argentina	(31)	832.47	+1.6	+3.9	510,580.27	+1.6	+3.9
Brazil	(68)	374.34	+1.5	+22.6	1,427.87	+1.7	+28.6
Chile	(43)	705.87	+0.4	-5.7	1,164.41	+0.3	-4.5
Colombia[1]	(15)	617.30	+1.8	+3.2	1,138.90	+1.4	+8.5
Mexico	(66)	547.64	+0.1	+20.8	1,773.98	-0.8	+17.8
Peru[2]	(21)	224.76	+1.8	+14.0	341.36	+1.7	+22.9
Venezuela[3]	(5)	531.90	+4.1	+59.1	5,829.55	+4.2	+123.3
Asia	(632)	250.18	+1.2	+7.8			
China[4]	(24)	58.79	-0.5	+8.7	61.62	-0.5	+8.4
South Korea[5]	(145)	96.37	-1.5	-23.5	103.99	-1.3	-19.0
Philippines	(35)	308.25	+1.2	+18.8	390.50	+1.3	+18.7
Taiwan, China[6]	(83)	148.09	+2.9	+31.3	152.87	+2.9	+32.3
India[7]	(76)	87.27	-4.2	+8.6	110.64	-4.1	+10.2
Indonesia[8]	(44)	112.15	+2.5	+2.3	141.52	+1.4	+3.9
Malaysia	(123)	316.68	+1.2	+16.8	292.08	+1.2	+14.9
Pakistan[9]	(25)	212.79	-2.3	-12.3	358.19	+1.4	-5.0
Sri Lanka[10]	(5)	94.34	+0.2	-9.3	115.27	+0.6	-4.6
Thailand	(72)	267.30	+4.5	-23.6	289.83	+4.7	-22.9
Euro/Mid East	(238)	139.27	+1.1	-1.7			
Czech Rep	(5)	74.50	-0.8	+24.1	65.78	-0.2	+23.6
Greece	(47)	259.74	+1.8	+7.5	423.89	+3.3	+9.5
Hungary[11]	(8)	175.36	-2.4	+78.2	324.80	-1.1	+100.7
Jordan	(8)	182.31	+2.2	-1.3	272.38	+2.2	-1.2
Poland[12]	(22)	757.11	+5.1	+77.6	1,327.48	+6.3	+100.5
Portugal	(26)	135.36	-1.1	+16.9	143.93	+0.3	+21.1
South Africa[13]	(63)	227.03	+1.2	-12.0	210.99	+1.1	+8.6
Turkey[14]	(54)	129.64	+1.4	+24.1	5,455.28	+3.1	+82.5
Zimbabwe[15]	(5)	448.58	+2.9	+63.3	676.96	+3.0	+78.5
Composite	(1119)	295.40	+1.1	+7.1			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are [illegible]

Greek shares continued on an uncertain path yesterday ahead of Sunday's general election, leaving the Athens general index down 3.17 at 963.47.
Since the election was announced in August, the market has had a strong run, mostly in the hope that the present government will be returned with a stronger mandate. But over the past two days nervousness has crept in.
The Athens index, which stood at 873 two months ago, advanced by 5 per cent over the five days to Monday. Since then, it has slipped lower. "This is partly pre-match nerves and partly sensible profit-taking," said one analyst.
Investor interest in Greece has steadily widened this year. After three years in power, the present government is seen as pro-business, and determined to bring the economy to a point where convergence with Europe can begin to look credible.
At 9 per cent of GDP, the budget deficit remains a problem, but inflation is in single digits, Greek tax collection has been improved and the drachma has been relatively stable.
As one broker put it: "What this market is betting on is a clear mandate for Mr Costas Simitis, followed by a good strong budget statement in November."

Nikkei runs into domestic profit-taking

ASIA PACIFIC

TOKYO saw profit-taking by domestic institutions after two consecutive days of steep gains, and the Nikkei index closed the day down 0.7 per cent, *writes Emiko Terazono.*

The Nikkei 225 average fell 153.84 to 21,156.75 after moving between 21,094.96 and 21,311.80. The Topix index of all first section stocks fell 7.48 to 1,597.48 and the Nikkei 300 index lost 1.19 to 298.05.

In London, the ISE/Nikkei 50 index rose 0.14 to 1,433.24.

Traders said that some domestic investors were realising profits on their holdings ahead of the September book closing, while dealers also took profits on their own accounts following the 566.66 point, or 4.2 per cent, rise over the previous two days.

Selling pressure grew as the Nikkei index approached the 21,400 point level. Volume totalled 406m shares against 422m.

Of the 1,287 issues listed *on the first section, declines* led gains by 732 to 343 with 171 issues remaining unchanged.

Stocks which rallied on buying by foreigners earlier in the week faced profit-taking. Toyota Motor fell Y30 to Y2,760, Honda Motor lost Y40 to Y2,750 and Nissan Motor gave up Y13 to Y875.

High-technology stocks were also weak, with Toshiba retreating Y3 to Y730, Sony down Y50 to Y6,970 and Fujitsu losing Y15 to Y985.

NEC, however, rose Y10 to Y1,200 on small-lot buying by domestic institutions and foreigners.

Nippon Steel lost Y3 to Y345 and Kawasaki Steel, which gained 5 per cent over the previous *two days, fell* Y5 to Y368 on profit-taking by banks and overseas investors.

Sanwa Bank rose Y70 to Y2,060. The stock is scheduled to be included into the Nikkei 225 average next Tuesday and domestic investors with index-linked investments as well as brokerage dealers placed buying orders.

In Osaka, the OSE average fell 87.49 to 21,992.14 in volume of 120.3m shares.

SYDNEY closed lower on base metal price worries. The All Ordinaries ended off 19.3 at 2,235.1, after touching a session low of 2,254.4.

BHP was heavily traded ahead of Friday's first quarter results. It closed down 28 cents at A$15.72. CRA came *off 44 cents to A$18.06.*

BANGKOK continued to fall in low turnover as the censure debate in parliament kept activity on hold. The SET index ended down 12.82 at 1,038.03.

A no-confidence debate against the prime minister began yesterday and is due to last three days. The main activity was said to have been light profit-taking. Neither of the two recently launched support funds were active.

KARACHI had a strong session. A combination of support for leading stocks and short-covering hoisted the 100 shares index by 17.66 or 1.3 per cent to 1,379.17.

TAIPEI finished higher with the weighted index up 20.58 at 6,499.02. Acer was the most active stock, gaining 90 cents to T$40.1.

Acer Sertek made a strong stock market debut, rising by the daily 7 per cent limit from its flotation price to T$37.4.

HONG KONG closed modestly easier, off the day's lows but just below its important resistance level of 11,600 points, as profit-takers and bulls struggled to dictate the market's direction.

The Hang Seng index finished 27.58 lower at 11,594.03 after trending as much as 95 points down during the day.

SHENZHEN's local currency A share index tumbled 5.3 per cent on heavy selling triggered by rumours that China's securities authorities planned to accelerate the pace of A share listings next year.

BOMBAY was 2 per cent higher on fund purchases of index-linked stocks and the BSE-30 index finished 66.64 ahead at 3,414.01. State Bank of India bounced Rs12 higher to Rs273 on renewed demand ahead of the pricing next month of the bank's $400m GDR issue.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY SEPTEMBER 17 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY SEPTEMBER 16 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (79)	202.95	-0.4	193.48	141.37	159.78	170.79	-0.7	4.46	203.83	194.10	142.20	159.86	171.98	212.18	179.77	190.61
Austria (24)	176.79	0.0	168.54	123.15	139.18	139.10	0.3	2.02	176.80	168.36	123.34	138.75	138.67	195.04	168.11	178.71
Belgium (27)	217.10	-0.2	206.96	151.23	170.91	166.93	0.1	3.99	217.53	207.14	151.75	170.71	166.72	218.69	188.58	189.99
Brazil (28)	183.55	0.0	174.98	127.86	144.50	344.34	0.0	1.88	183.63	174.86	128.10	144.10	344.49	189.70	123.97	158.91
Canada (117)	167.44	0.1	159.62	116.64	131.82	166.18	0.1	2.17	167.28	159.30	116.70	131.28	166.01	167.44	134.14	144.06
Denmark (30)	320.67	0.2	305.69	223.37	252.45	254.20	0.5	1.81	320.07	304.79	223.29	251.18	253.00	321.04	276.89	282.10
Finland (23)	213.19	0.2	203.24	148.51	167.84	203.46	0.2	2.45	212.76	202.60	148.43	166.97	203.10	275.49	171.73	275.49
France (33)	194.41	-0.3	185.33	135.43	153.05	156.91	-0.2	3.09	195.00	185.69	136.04	153.03	157.28	198.39	167.70	173.17
Germany (58)	176.97	-0.5	168.70	123.27	139.32	139.32	-0.2	1.76	177.93	169.43	124.13	139.63	139.63	177.93	155.66	161.09
Hong Kong (59)	443.23	0.6	422.53	308.75	348.94	440.03	0.6	3.47	440.72	419.68	307.46	345.86	437.52	451.19	354.67	389.00
Indonesia (27)	203.00	1.4	193.52	141.41	159.82	289.07	1.3	1.65	200.26	190.70	139.71	157.16	285.39	-	-	-
Ireland (16)	293.65	0.0	279.94	204.55	231.18	257.36	0.2	3.48	293.53	279.52	204.78	230.35	256.76	293.65	241.27	246.77
Italy (58)	74.45	-1.1	70.97	51.86	58.61	84.83	-0.9	2.54	75.24	71.65	52.49	59.05	85.63	84.53	67.22	80.02
Japan (481)	146.72	2.1	139.86	102.20	115.50	102.20	1.9	0.75	143.73	136.87	100.27	112.80	100.27	164.68	137.75	144.77
Malaysia (107)	568.10	0.4	541.57	395.73	447.25	546.09	0.3	1.19	565.65	538.65	394.62	443.91	544.19	585.09	425.77	498.75
Mexico (19)	1278.94	1.2	1219.21	890.89	1006.86	10496.60	1.1	1.28	1264.20	1203.85	881.94	992.10	10387.32	1325.65	791.99	1176.84
Netherland (19)	298.84	-1.0	284.89	208.17	235.27	231.46	-0.8	3.17	301.83	287.51	210.63	236.94	233.21	304.24	250.19	252.23
New Zealand (15)	87.13	1.6	83.06	60.70	68.60	86.21	1.1	4.14	85.73	81.64	59.81	67.28	85.52	87.13	75.84	79.57
Norway (36)	253.22	-0.7	241.40	176.39	199.35	222.62	-0.6	2.16	254.94	242.77	177.85	200.07	223.75	258.94	222.24	232.50
Philippines (22)	209.99	1.3	200.19	146.28	165.32	274.50	1.3	0.56	207.35	197.45	144.65	162.72	271.05	-	-	-
Singapore (44)	407.88	2.0	388.82	284.11	321.10	265.32	2.0	1.05	399.81	380.72	278.92	313.75	260.02	465.21	360.49	368.22
South Africa (44)	354.22	0.3	337.68	246.75	278.87	347.35	0.3	2.18	352.98	336.13	246.25	277.01	346.17	437.76	314.20	353.28
Spain (37)	176.57	-0.8	168.33	123.00	139.01	170.73	-0.5	3.43	177.94	169.44	124.14	139.64	171.50	183.85	145.15	152.42
Sweden (48)	374.09	-0.5	356.62	260.59	294.51	367.01	-0.6	2.32	375.98	358.03	262.29	295.06	369.22	375.98	294.19	311.65
Switzerland (37)	242.57	-1.1	231.24	168.97	190.96	187.03	-0.8	1.58	245.26	233.56	171.12	192.49	188.53	254.34	204.84	205.53
Thailand (45)	138.49	-0.6	132.03	96.47	109.03	136.50	-0.7	2.51	139.39	132.73	97.24	109.39	137.46	193.95	128.90	166.90
United Kingdom (200)	249.86	-0.3	238.00	173.91	196.55	238.00	-0.1	4.01	250.30	238.35	174.62	196.43	238.35	250.30	220.57	223.76
USA (623)	278.33	-0.1	265.34	193.88	219.12	278.33	-0.1	2.13	278.60	265.30	194.36	218.63	278.60	278.60	236.38	238.39
Americas (787)	254.54	-0.1	242.85	177.31	200.39	214.05	-0.1	2.12	254.73	242.57	177.71	199.90	214.21	254.73	215.17	218.22
Europe (708)	216.64	-0.5	206.52	150.91	170.55	188.62	-0.3	3.09	217.74	207.34	151.90	170.87	189.25	217.74	191.44	199.96
Nordic (137)	320.97	-0.3	305.98	223.58	252.68	276.45	-0.3	2.24	322.00	306.63	224.64	252.69	277.34	322.00	261.13	291.69
Pacific Basin (878)	161.02	1.7	153.50	112.16	126.76	113.97	1.6	1.21	158.28	150.73	110.42	124.21	112.19	177.01	148.98	156.06
Euro-Pacific (1584)	184.06	0.6	175.46	128.21	144.90	142.14	0.6	2.10	182.92	174.18	127.61	143.55	141.24	190.57	168.51	171.76
North America (740)	271.56	-0.1	258.87	189.16	213.79	270.90	-0.1	2.13	271.79	258.81	189.61	213.29	271.12	271.79	230.17	232.56
Europe Ex. UK (506)	194.19	-0.8	185.12	135.27	152.88	160.51	-0.4	2.48	195.44	186.11	136.35	153.38	161.31	195.76	170.51	179.73
Pacific Ex. Japan (397)	290.31	0.5	276.75	202.23	228.55	250.36	0.3	2.96	289.00	275.20	201.62	226.80	249.49	296.68	243.59	262.40
World Ex. US (1792)	185.76	0.6	177.09	129.40	146.24	147.02	0.5	2.10	184.66	175.84	128.82	144.91	146.13	191.55	167.96	172.97
World Ex. UK (2215)	211.21	0.4	201.35	147.13	166.28	179.55	0.3	1.92	210.46	200.41	146.82	165.16	178.82	213.05	185.61	190.09
World Ex. Japan (1934)	251.17	-0.2	239.44	174.96	197.73	237.51	-0.1	2.48	251.60	239.59	175.52	197.45	237.81	251.60	217.28	219.97
The World Index (2415)	214.53	0.3	204.51	149.44	168.89	184.78	0.3	2.11	213.89	203.68	149.22	167.86	184.22	214.95	198.97	192.98

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